# The Narragansett Electric Company d/b/a National Grid

# INVESTIGATION AS TO THE PROPRIETY OF PROPOSED TARIFF CHANGES

Testimony of:

Melissa A. Little

Book 8 of 17

November 27, 2017

Submitted to: Rhode Island Public Utilities Commission RIPUC Docket No. 4770

Submitted by:

nationalgrid

RIPUC Docket No.4770

Witness: Little

#### PRE-FILED DIRECT TESTIMONY

OF

#### MELISSA A. LITTLE

Dated: November 27, 2017

#### **SUMMARY**

Melissa A. Little is the Director, New England Revenue Requirements for National Grid USA Service Company, Inc. with revenue requirement responsibilities for National Grid's electric and gas distribution activities in New England, including the electric and gas operations of The Narragansett Electric Company d/b/a National Grid. Specifically, she testifies regarding (1) the development of the Company's revenue requirements and revenue deficiencies for the Rate Year for Narragansett Electric and Narragansett Gas; (2) the calculation of the rate base amount to be recovered through base distribution rates; (3) the Company's cash working capital study for Narragansett Electric and Narragansett Gas and associated cash working capital rate base allowance; (4) the Company's proposal for recovery of costs associated with initiatives proposed by the Company to further its ability to provide safe and reliable service to customers; (5) the Company's proposal with respect to the Storm Contingency Fund; and (6) the Company's proposal to addresses miscellaneous proposals and administrative matters.

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Ī	Introduction	and (	Dualifica	ations
I.	mu vuucuvii	anu (	Juaiiiic	ฉนบน

- 2 Q. Please state your full name and business address.
- 3 A. My name is Melissa A. Little, and my business address is 40 Sylvan Road, Waltham,
- 4 Massachusetts 02451.

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- 6 Q. By whom are you employed and in what capacity?
- 7 A. I am Director, New England Revenue Requirements for National Grid USA Service
- 8 Company, Inc. (the Service Company). The Service Company provides engineering,
- 9 financial, administrative, corporate, management, and other technical support to direct
- and indirect subsidiary companies of National Grid USA (National Grid). My current
- duties include revenue requirement responsibilities for National Grid's electric and gas
- distribution activities in New England, including the electric and gas operations of The
- Narragansett Electric Company d/b/a National Grid (the Company).

- 15 Q. Please describe your educational background and professional experience.
- 16 A. In 2000, I earned a Bachelor of Science degree in Accounting Information Systems from
- Bentley College (now Bentley University) in Waltham, Massachusetts. In September
- 18 2000, I joined PricewaterhouseCoopers LLP in Boston, Massachusetts, where I worked
- as an associate in the Assurance practice. In November 2004, I joined National Grid as
- an analyst in the General Accounting group. After the merger of National Grid and
- 21 KeySpan Corporation in 2007, I joined the Regulation and Pricing department as a senior
- 22 analyst in the Regulatory Accounting function and also supported the revenue
- requirement team for the Company's upstate New York affiliate, Niagara Mohawk Power

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1		Corporation. In 2011, I joined the New England revenue requirement team and was
2		promoted to Lead Specialist in the Regulation and Pricing department where my duties
3		included revenue requirement responsibilities for National Grid's electric and gas
4		distribution activities in New England, including the Company. In August 2017, I was
5		promoted to my current position.
6		
7	Q.	Have you previously testified before the Rhode Island Public Utilities Commission
8		(the PUC)?
9	A.	Yes. Among other testimony, I testified in support of the Company's revenue
10		requirement (1) for Narragansett Electric, in the Fiscal Year 2018 Electric Infrastructure,
11		Safety, and Reliability (ISR) Plan filing in Docket No. 4682; and (2) for Narragansett
12		Gas, in the Gas ISR Plan and reconciliation filings for Fiscal Year 2016 in Docket No.
13		4540 and Fiscal Year 2017 in Docket No. 4590, and the Gas ISR Plan filing for Fiscal
14		Year 2018 in Docket No. 4678.
15		
16	Q.	Would you please explain the naming conventions that you will be using in your
17		testimony and associated schedules to identify the various entities involved in this
18		proceeding?
19	A.	Certainly. This proceeding is a ratemaking proceeding for the electric and gas
20		distribution operations of The Narragansett Electric Company, which together constitute
21		the regulated operations that National Grid conducts in Rhode Island. In this case, I will
22		refer to the regulated entity as the "Company," where the reference is to both electric and

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1		gas distribution operations on a collective basis. Where there is a need to refer to the
2		"stand-alone" or individual electric or gas operations of The Narragansett Electric
3		Company, I will use the terms "Narragansett Electric" or "Narragansett Gas,"
4		respectively, as appropriate. Where I refer to "National Grid USA", I will use the term
5		"National Grid"; where I refer to "National Grid plc," I will use that specific term.
6		
7	Q.	What is the purpose of your testimony?
8	A.	My testimony is designed to serve several purposes: First, my testimony provides the
9		revenue requirement calculation and existing revenue deficiency for Narragansett
10		Electric, and separately for Narragansett Gas, for the twelve-month period ending August
11		31, 2019 (the Rate Year). The cost of service established in my testimony for
12		Narragansett Electric and for Narragansett Gas serves as the basis for the allocated cost of
13		service study presented by Company Witness Howard S. Gorman for Narragansett
14		Electric and Company Witness Paul M. Normand for Narragansett Gas. In addition, the
15		Company is including forecast data for the two twelve-month periods ending August 31,
16		2020 (Data Year 1) and August 31, 2021 (Data Year 2) (Data Year 1 and Data Year 2 are
17		collectively referred to herein as the Data Years) for informational purposes.
18		
19		Second, my testimony sets forth the Company's calculation of the rate base upon which
20		the Company earns a return. As discussed herein, the rate base calculation is performed
21		in a manner consistent with the rate base calculation underlying the rates set in the
22		Company's most recent rate case, RIPUC Docket No. 4323, The Narragansett Electric

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1	Company d/b/a National Grid Application for Approval of Change in Electric Base
2	Distribution Rates and Gas Delivery Service Rates (2012 Rate Case). My testimony
3	explains the Company's proposal for structuring the recovery of the return of and on rate
4	base through base distribution rates and the ISR Plans, which work in tandem under
5	Rhode Island law. The rate base calculation is the same for Narragansett Electric and
6	Narragansett Gas.
7	
8	Third, my testimony discusses the Company's cash working capital study for
9	Narragansett Electric and Narragansett Gas and associated cash working capital rate base
10	allowance.
11	
12	Fourth, my testimony discusses recovery of costs associated with initiatives proposed by
13	the Company to further its ability to provide safe and reliable service to customers.
14	These costs are included in the Rate Year and Data Year revenue requirements.
15	
16	Fifth, my testimony discusses the Company's Storm Contingency Fund (Storm Fund).
17	
18	Sixth, my testimony discusses the Company's other miscellaneous proposals and
19	administrative matters relating to (1) the timing of the filing of Narragansett Gas Annual
20	Report and annual earnings sharing mechanism (ESM) with the PUC; and (2) a request to
21	combine funding for costs associated with employee pension obligations and post-
22	retirement benefits other than pension (PBOP) for purposes of the carrying charge

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1		calculation relating each to Narragansett Electric and Narragansett Gas; and (3) a request
2		for the PUC to authorize exogenous cost treatment for the incremental costs incurred by
3		the Company associated with potential legislative or regulatory changes.
4		
5	Q.	How did you establish the revenue requirement for Narragansett Electric and
6		Narragansett Gas?
7	A.	To develop the separate revenue requirements for Narragansett Electric and Narragansett
8		Gas, I started with historical data for the twelve-month period ending June 30, 2017 (the
9		Test Year), adjusted for proforma changes occurring prior to the end of the Rate Year.
10		Based on this data, the Company has calculated a total Rate Year revenue requirement of
11		\$320,487,337, and existing revenue deficiency of \$41,294,907, for Narragansett Electric.
12		For Narragansett Gas, the Company has calculated a total Rate Year revenue requirement
13		of \$244,846,133, and existing revenue deficiency of \$30,322,543. The forecast data
14		provides the basis for computing the Company's revenue requirements for Narragansett
15		Electric and Narragansett Gas for the Rate Year and Data Years in this proceeding.
16		
17	Q.	How is your testimony organized?
18	A.	Section I of my testimony provides an introduction and background information. Section
19		II provides a summary of the revenue requirements and revenue deficiencies for
20		Narragansett Electric and Narragansett Gas. Section III discusses the development of the
21		revenue requirements and revenue deficiencies for the Rate Year and Data Years.
22		Section IV discusses the cash working capital study for Narragansett Electric and

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	Narragansett Gas and associated cash working capital rate base allowance. Sections V
	through VIII discuss the various proposals presented by the other company witnesses in
	this general rate case for which the Company is proposing proforma adjustments to the
	applicable revenue requirement. Section IX discusses the Company's proposed changes
	to the Storm Fund to reflect the terms of the Joint Proposal and Settlement between the
	Company and the Division of Public Utilities and Carriers (the Division) filed with the
	PUC on September 25, 2017 in Docket No. 4686. Section X addresses other
	miscellaneous proposals and administrative matters.
Q.	Please describe the schedules accompanying your testimony.
A.	I have prepared separate schedules for Narragansett Electric and Narragansett Gas, with
	the schedules labeled with the designations "ELEC" and "GAS," respectively, as
	appropriate. For ease of reference, I have maintained the same naming convention for the
	presentation of similar information for Narragansett Electric and Narragansett Gas. For
	example Schedule MAL-1-ELEC represents the summary revenue requirement and
	resulting revenue deficiency for Narragansett Electric. Schedule MAL-1-GAS contains
	the same information for Narragansett Gas. For schedules that provide common support
	for both electric and gas, no "ELEC" or "GAS" designation is used.
	Using these designations, the revenue requirements schedules accompanying my
	testimony are organized in a series of schedules as follows:

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1	• Schedule MAL-1-ELEC / GAS – Summary Revenue Requirements and Cost of
2	Capital
3	• Schedule MAL-2-ELEC / GAS – Revenues
4	• Schedule MAL-3 – Summary of Operation & Maintenance Expenses
5	• Schedule MAL-4-ELEC / GAS – Regulatory Amortization
6	• Schedule MAL-5-ELEC / GAS – Amortization of Utility Plant
7	• Schedule MAL-6-ELEC / GAS – Depreciation Expense
8	• Schedule MAL-7-ELEC / GAS – Municipal Taxes
9	• Schedule MAL-8 – Payroll Taxes
10	• Schedule MAL-9 – Other Taxes and Gross Receipts Taxes
11	• Schedule MAL-10 – Income Taxes
12	• Schedule MAL-11-ELEC / GAS – Rate Base
13	
14	Operation & Maintenance Detail Schedules:
15	• Schedule MAL-12 – Labor
16	• Schedule MAL-13 – Health Care
17	• Schedule MAL-14 – Group Life Insurance
18	• Schedule MAL-15 – Thrift Plan
19	• Schedule MAL-16 – FAS 112/ASC 712
20	• Schedule MAL-17 – Service Company Rents
21	• Schedule MAL-18 – Joint Facilities
22	Schedule MAL-19 – Uninsured Claims

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1	• Schedule MAL-20 – Insurance Premiums
2	• Schedule MAL-21 – Regulatory Assessment Fees
3	• Schedule MAL-22 – Uncollectible Accounts
4	• Schedule MAL-23 – Postage
5	• Schedule MAL-24 – Strike Contingency
6	• Schedule MAL-25 – Environmental Response Fund
7	• Schedule MAL-26 – Paperless Bill Credit
8	• Schedule MAL-27 – PBOP
9	• Schedule MAL-28 – Pensions
10	• Schedule MAL-29 – Energy Efficiency Program
11	• Schedule MAL-30 – Other O&M Expenses
12	• Schedule MAL-31 – Storm Cost Recovery
13	• Schedule MAL-32 – O&M Through the Gas Cost Recovery Mechanism
14	• Schedule MAL-33 – NEP IFA Credit
15	• Schedule MAL-34 – Wheeling
16	• Schedule MAL-35 – Energy Innovation Hub
17	• Schedule MAL-36 – Gas Business Enablement Program
18	• Schedule MAL-37 – Electric Operations
19	• Schedule MAL-38 – Gas Operations
20	• Schedule MAL-39 – Customer Affordability Program
21	• Schedule MAL-40 – Purchase Power
22	• Schedule MAL-41 – Cash Working Capital Electric

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#### 3 II. <u>Summary of Revenue Requirement</u>

- 4 Q. What is the basis for the Company's revenue requirements for Narragansett
- 5 Electric and Narragansett Gas?
- A. The Company's revenue requirements are based on the actual results for the historical

  Test Year, normalized to reflect a representative 12-month level of revenue and expenses

  for that period, and then adjusted for proforma changes through the end of the Rate Year.

  Narragansett Electric's and Narragansett Gas' rate base is determined as of August 31,
- 2019 based on the actual five-quarter average balances as of June 30, 2017, with certain
- proforma adjustments that are discussed herein.

12

13

#### Q. What costs are included in the revenue requirements?

14 A. The revenue requirements reflect the Company's cost of providing electric and gas 15 distribution service along with a fair and reasonable return on the investment devoted to 16 distribution infrastructure. For Narragansett Electric and Narragansett Gas, revenues and 17 expenses for costs that are recovered through reconciling mechanisms are excluded from 18 the revenue requirements. Costs recovered through reconciling mechanisms include such 19 costs as commodity costs (purchased electricity and gas costs) and energy efficiency 20 program costs, among others. As part of this rate case, and consistent with the 2012 Rate 21 Case, the Company is including in Narragansett Electric's and Narragansett Gas' revenue 22 requirements the impact of including all costs, except for costs associated with

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Narragansett Electric's vegetation-management program and inspection and maintenance
program, which would be recovered through the ISR Plans through the end of the Rate
Year, absent the Company's filing this general rate case. These costs will cease being
recovered through the electric and gas ISR factors effective September 1, 2018, and will
instead be recovered through base distribution rates effective September 1, 2018.

A.

#### Q. Does the cost of service include costs incurred by the Service Company on behalf of

#### Company?

Yes. The cost of service for Narragansett Electric and Narragansett Gas includes two types of charges from the Service Company: (1) "direct charges" billed for costs incurred and work performed by Service Company personnel directly related to either Narragansett Electric and Narragansett Gas; and (2) "common costs" that are allocated among the respective subsidiaries benefitting from the service based on cost causative or other appropriate allocation factors consistent with National Grid's standard allocation practices. Therefore, where applicable, costs incurred on behalf of, or allocated to, Narragansett Electric and Narragansett Gas by the Service Company are included in Test Year charges as adjusted, as discussed in Section III, below. Test Year costs originating from the Service Company are presented on each schedule of the revenue requirement, as applicable. Test Year costs originating from Narragansett Electric or Narragansett Gas or originating from other affiliates of the Company are similarly presented on each schedule of the revenue requirement, as applicable.

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1	Q.	Where are the costs that the Service Company incurred to perform services for
2		Narragansett Electric and Narragansett Gas reflected in the Company's revenue
3		requirement calculations?
4	A.	The charges to Narragansett Electric and Narragansett Gas from the Service Company are
5		incorporated into the operation and maintenance (O&M) or other expense categories
6		included in the Test Year cost of service. In addition, the Company has included
7		applicable charges from the Service Company in the individual normalizing and
8		proforma adjustments to the cost of service.
9		
10	Q.	What is the Company's proposed cost of service?
11	A.	The Company's proposed cost of service is \$320,487,337 for Narragansett Electric
12		reflecting a weighted cost of capital of 7.43 percent on rate base of \$758,249,458, as
13		reflected in Schedule MAL-1-ELEC. The Company's proposed cost of service is
14		\$244,846,133 for Narragansett Gas reflecting a weighted cost of capital of 7.67 percent
15		on rate base of \$773,427,484, as reflected in Schedule MAL-1-GAS.
16		
17	Q.	Are the proposed base distribution rates designed to recover the Company's
18		revenue requirements?
19	A.	Yes. The proposed base distribution rates are designed to recover the Company's
20		revenue requirements, net of other operating revenue. A summary of those revenue
21		requirements is provided on Schedule MAL-1-ELEC and Schedule MAL-1-GAS. The
22		revenue requirement for Narragansett Electric, including other operating revenue, before

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1		reflecting the required increase, is \$279,192,430, as shown on Schedule MAL-1-ELEC.
2		As also shown, the base distribution revenue increase required is \$41,294,907. Thus,
3		Narragansett Electric's total revenue requirement is \$320,487,337, with \$311,957,206 to
4		be recovered through base distribution rates (\$320,487,337 less other revenue of
5		\$8,350,131). The revenue requirement for Narragansett Gas, including other operating
6		revenue and before reflecting the required increase is \$214,523,590, as shown on
7		Schedule MAL-1-GAS. As also shown, the base distribution revenue increase required
8		for Narragansett Gas is \$30,322,543. Thus, the Narragansett Gas total revenue
9		requirement is \$244,846,133, with \$241,368,836 to be recovered through base
10		distribution rates (\$244,846,133 less other revenue of \$3,477,297).
11		
12	Q.	What is the proposed revenue increase in this proceeding for Narragansett Electric
<ul><li>12</li><li>13</li></ul>	Q.	What is the proposed revenue increase in this proceeding for Narragansett Electric and Narragansett Gas?
	<b>Q.</b> A.	
13		and Narragansett Gas?
13 14		and Narragansett Gas?  As discussed above, the Company is seeking increases in base distribution revenues as
<ul><li>13</li><li>14</li><li>15</li></ul>		and Narragansett Gas?  As discussed above, the Company is seeking increases in base distribution revenues as summarized on Schedule MAL-1-ELEC and Schedule MAL-1-GAS of \$41,294,907 for
13 14 15 16		and Narragansett Gas?  As discussed above, the Company is seeking increases in base distribution revenues as summarized on Schedule MAL-1-ELEC and Schedule MAL-1-GAS of \$41,294,907 for
13 14 15 16 17		and Narragansett Gas?  As discussed above, the Company is seeking increases in base distribution revenues as summarized on Schedule MAL-1-ELEC and Schedule MAL-1-GAS of \$41,294,907 for Narragansett Electric and \$30,322,543 for Narragansett Gas.
13 14 15 16 17		and Narragansett Gas?  As discussed above, the Company is seeking increases in base distribution revenues as summarized on Schedule MAL-1-ELEC and Schedule MAL-1-GAS of \$41,294,907 for Narragansett Electric and \$30,322,543 for Narragansett Gas.  The rate base computations included in the proposed revenue requirements include a
13 14 15 16 17 18		and Narragansett Gas?  As discussed above, the Company is seeking increases in base distribution revenues as summarized on Schedule MAL-1-ELEC and Schedule MAL-1-GAS of \$41,294,907 for Narragansett Electric and \$30,322,543 for Narragansett Gas.  The rate base computations included in the proposed revenue requirements include a projected level of capital investment commensurate with the levels approved in the

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1		distribution rates beginning September 1, 2018, will lead to a reduction in the amount of
2		ISR Plan revenue that the Company will recover through that reconciling mechanism.
3		
4	III.	<b>Development of the Revenue Requirements</b>
5	Q.	Have you prepared schedules to support your revenue requirement calculations for
6		Narragansett Electric and Narragansett Gas?
7	A.	Yes. The proposed revenue requirements are supported by a cost of service analysis
8		contained in Schedule MAL-1-ELEC and Schedule MAL-1-GAS to Schedule MAL-42,
9		which encompass supporting schedules for each component including the normalizing
10		and proforma adjustments to Test Year data.
11		
12	Q.	Would you review the organization of the revenue-requirement schedules?
13	A.	Yes. Schedule MAL-1-ELEC and Schedule MAL-1-GAS provide the computation of the
14		proposed revenue requirements. Page 1 is a statement of operating income and the
15		calculation of the revenue deficiency for Narragansett Electric and Narragansett Gas.
16		Page 1 begins with revenue and expenses for the Test Year, and then incorporates
17		normalizing adjustments to those Test Year amounts, as well as proforma adjustments, to
18		develop the Rate Year operating income. The required base distribution revenue
19		increase, along with an allowance for uncollectible accounts and income taxes, is then

added to the Rate Year revenue and expenses to determine the Rate Year ending August

31, 2019 operating income including the base distribution revenue requirements.

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Test Year revenue, along with normalizing adjustments and proforma adjustments, are
provided in Schedule MAL-2-ELEC and Schedule MAL-2-GAS. A summary of O&M
expenses for Narragansett Electric and Narragansett Gas for the Test Year is shown in
Schedule MAL-3, along with normalizing and proforma adjustments. The normalizing
and proforma adjustments for revenue and expenses are discussed in more detail below.
As shown on Schedule MAL-1-ELEC and Schedule MAL-1-GAS, and incorporating
Rate Year revenue and expenses, the resulting increase in base distribution rate revenue is
\$41,294,907 for Narragansett Electric and \$30,322,543 for Narragansett Gas. For
Narragansett Electric, the distribution revenue increase of \$41,294,907 was computed by
comparing the 3.94 percent earned rate of return at current distribution and ISR rates to
the required rate of return of 7.43 percent (shown on Schedule MAL-1-ELEC, Page 4),
and multiplying that difference by the rate base and grossing up that product for income
taxes and uncollectible accounts expense. For Narragansett Gas, the distribution revenue
increase/ revenue deficiency was computed by comparing the 5.17 percent earned rate of
return at current rates to the required rate of return of 7.67 percent (shown on Schedule
MAL-1-GAS, Page 4), and multiplying that difference by the rate base and grossing up
that product for income taxes and uncollectible accounts expense.

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#### A. Revenue

#### 2 Q. What schedules provide the calculations related to operating revenue?

3 A. Schedule MAL-2-ELEC and Schedule MAL-2-GAS provide the Test Year revenue,

reclassifications, normalizing adjustments, and proforma adjustments related to operating

5 revenue for Narragansett Electric and Narragansett Gas.

Table 1
Summary of Normalizing and Proforma Adjustments to Operating Revenue

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$906,848,280	(\$627,513,858)	(\$141,992)	\$279,192,430
Narragansett Gas	\$241,403,971	(\$64,008,069)	\$37,127,687	\$214,523,590

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#### 9 Q. Would you please explain the adjustments to Test Year revenue?

A. Yes. In general, Test Year revenues are adjusted to remove revenue from reconciling mechanisms and normalize for factors such as weather (in the case of gas distribution revenue associated with customers not included in Narragansett Gas revenue, the revenue decoupling mechanism (RDM), and billing days. More details on these adjustments are included in the pre-filed direct testimony of Company Witnesses Ann E. Leary and Scott M. McCabe, who I will refer to hereafter as the Pricing Panel.

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#### 1. <u>Narragansett Electric</u>

2	Q.	Please describe how the Narragansett Electric distribution revenue shown on Line
3		11, Column (e) of Schedule MAL-2-ELEC was developed.
4	A.	As described in the testimony of the Pricing Panel, the purpose of the Rate Year
5		distribution revenue amount is to represent the revenue that the Company would realize
6		during the Rate Year (at existing rates) before considering the revenue increase approved
7		in this filing. The Company operates under an approved RDM. Therefore, the total
8		distribution revenue allowed in any year, including the Rate Year, is limited to the annual
9		target revenue of \$251,173,000, as approved in the 2012 Rate Case.
10		The Comment of Protect date and the second to the second of the second o
10		The Company has adjusted the annual target revenue by the estimated Rate Year revenue
11		requirement of \$19,489,298 associated with the estimated cumulative capital investment
12		in the Electric ISR Plan as calculated on Workpaper MAL-12-ELEC, Page 1, Line 17,
13		Column (g). The Company has included this capital investment in the Rate Year rate
14		base for recovery in base distribution rates. Therefore, the Company must reflect the
15		estimated Rate Year revenue associated with the recovery of this capital investment that
16		would have taken place through the ISR capital recovery factors (ISR CapEx factors)
17		with the annual target revenue to align total Rate Year distribution revenue with the Rate
18		Year costs reflected in my revenue requirement.
19		The Data Year adjustments on Schedule MAL-2-ELEC, Line 7, Columns (f) and (h) are
20		supported by Workpaper MAL-12-ELEC on Page 1, Line 17, Columns (h) and (i). The
21		adjusted annual target revenue of \$270,662,298 is shown on Schedule MAL-2-ELEC,

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1		Line 11, Column (e), reflecting the sum of the annual target revenue from the 2012 Rate
2		Case plus the forecasted Rate Year ISR revenue requirement.
3		
4	Q.	What does Narragansett Electric's Rate Year distribution revenue represent?
5	A.	The Rate Year distribution revenue is the forecasted Rate Year normalized distribution
6		revenue that will fund Narragansett Electric's Rate Year costs to provide distribution
7		service as reflected in its Rate Year revenue requirement. Accordingly, the Company has
8		excluded revenue from reconciling mechanisms as well as revenue associated with the
9		Block Island Transmission System discussed below. The proforma adjustment on Line
10		15 of column (c) is associated with proposed changes to existing fees.
11		
<ul><li>11</li><li>12</li></ul>	Q.	Please describe further the adjustment to adjust Other Distribution Revenue
	Q.	Please describe further the adjustment to adjust Other Distribution Revenue referred to above related to the Block Island Transmission System.
12	<b>Q.</b> A.	· · · · · · · · · · · · · · · · · · ·
12 13		referred to above related to the Block Island Transmission System.
12 13 14		referred to above related to the Block Island Transmission System.  The Company has made a normalizing adjustment to Other Distribution Revenue related
12 13 14 15		referred to above related to the Block Island Transmission System.  The Company has made a normalizing adjustment to Other Distribution Revenue related to the Block Island Transmission System. Schedule MAL-2-ELEC, Page 1, Line 18,
12 13 14 15 16		referred to above related to the Block Island Transmission System.  The Company has made a normalizing adjustment to Other Distribution Revenue related to the Block Island Transmission System. Schedule MAL-2-ELEC, Page 1, Line 18, Column (b) reflects the elimination of the Block Island Transmission System-related
12 13 14 15 16 17		referred to above related to the Block Island Transmission System.  The Company has made a normalizing adjustment to Other Distribution Revenue related to the Block Island Transmission System. Schedule MAL-2-ELEC, Page 1, Line 18, Column (b) reflects the elimination of the Block Island Transmission System-related O&M credit for these facilities supported by New England Power Company (NEP), or
12 13 14 15 16 17		referred to above related to the Block Island Transmission System.  The Company has made a normalizing adjustment to Other Distribution Revenue related to the Block Island Transmission System. Schedule MAL-2-ELEC, Page 1, Line 18, Column (b) reflects the elimination of the Block Island Transmission System-related O&M credit for these facilities supported by New England Power Company (NEP), or \$9,086,137. The Company has eliminated all transmission-related rate base and

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1		adjustment normalizing the Test Year to remove this revenue, which has been reflected as
2		a credit to O&M, ensuring a proper matching of revenue and costs in the cost of service.
3		
4		2. <u>Narragansett Gas</u>
5	Q.	Please describe the nature of the revenue adjustments for Narragansett Gas.
6	A.	As described in the testimony of the Pricing Panel, the Narragansett Gas revenue
7		adjustments are similar to the revenue adjustments for Narragansett Electric described
8		above. In addition to a revenue adjustment for the operation of the gas RDM and a
9		similar adjustment to reflect Rate Year ISR Plan revenue, Narragansett Gas also
10		calculates a revenue adjustment to normalize Test Year billing units for weather and a
11		proforma Rate Year revenue adjustment for customer growth not reflected in the Test
12		Year.
13		
14	Q.	What are the other revenue adjustments made to Test Year revenue on Schedule
15		MAL-2-GAS?
16	A.	The Company made additional normalization adjustments to Test Year actual revenue to:
17		remove revenue recovered through reconciling mechanisms; reflect revenue that had been
18		recorded but not included in other revenue credited to the Narragansett Gas cost of
19		service; and eliminate various accounting entries for the accrual of various revenue items
20		that do not impact normalized distribution revenue for ratemaking purposes.
21		

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1	Q.	Please explain the reason that Narragansett Gas has made these adjustments.
2	Α.	As noted above, since this is a base distribution rate case, Narragansett Gas removed all
3		items that were not related to distribution revenue. In addition, since the Company earns
4		incentives associated with its Energy Efficiency Program and Natural Gas Portfolio
5		Management Plan, Narragansett Gas also removed these items from Test Year revenue to
6		ensure that those items do not impact the distribution revenue requirement to be
7		recovered through base distribution rates.
8		
9	Q.	Are any other adjustments made to the Rate Year revenue on Schedule MAL-2-
10		GAS?
11	A.	Yes. Narragansett Gas also made proforma revenue adjustments associated with
12		proposed changes to the Account Restoration Charge and Returned Check Charge in
13		addition to its RDM and ISR Plan revenue adjustments.
14		
15		B. Expenses – Overview
16	Q.	Please provide an overview of the cost of service calculations related to expenses.
17	A.	The cost of service includes O&M expenses and non-O&M expenses such as
18		depreciation and amortization expenses, taxes other than income taxes (municipal
19		property taxes, payroll taxes and other taxes), and interest expense on customer deposits.
20		The cost of service calculations related to expenses began with Test Year expenses.
21		Next, the Company made certain normalizing adjustments that affected multiple expense
22		accounts. In addition, there are certain normalizing adjustments that were made to

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1		discrete expense accounts. Lastly, the Company reflected proforma adjustments to
2		expenses to develop the Rate Year cost of service for Narragansett Electric and
3		Narragansett Gas. My testimony will describe normalizing and proforma adjustments to
4		O&M expenses in Sections C and D. Non-O&M expenses are discussed in Section E.
5		
6	Q.	In what schedules are the calculations related to O&M expenses provided?
7	A.	A summary of O&M expenses is provided in Schedule MAL-3. Schedules MAL-12
8		through Schedule MAL-40 provide analyses of the individual O&M accounts for
9		Narragansett Electric and Narragansett Gas.
10		In general Dage 1 of each expense cabadula provides Test Veer date and the normalizing
10		In general, Page 1 of each expense schedule provides Test Year data and the normalizing
11		adjustments made thereto, and Page 2 provides the proforma adjustments. Page 3
12		summarizes the Electric proforma adjustments for Data Year 1 and Data Year 2. Page 4
13		summarizes the Gas proforma adjustments for Data Year 1 and Data Year 2, and
14		subsequent pages provide additional detailed calculations.
15		
16		C. Expenses – Normalizing Adjustments to Expense Accounts
17	Q.	Would you please explain the normalization adjustments that affect multiple
18		expense accounts?
19	<b>A.</b>	Yes. For Narragansett Electric, normalizing adjustments made to multiple Test Year
20		expense accounts are presented on Schedule MAL-3, Page 6 in Columns (b) through (f).
21		These adjustments fall into five categories: (1) adjustments to remove the expenses
22		associated with Narragansett Electric's transmission-related O&M bill credit from its
		The state of the s

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affiliate NEP for use of Narragansett Electric-owned transmission facilities pursuant to
the IFA between Narragansett Electric and NEP; (2) normalizing adjustments to remove
expenses associated with vegetation management expense and I&M program expense
recorded by Narragansett Electric during the Test Year, as those costs are recovered
through Narragansett Electric's ISR O&M factors; (3) an adjustment to remove costs
associated with initiatives funded by the National Grid Parent Company; (4) a
normalizing adjustment to the Test Year to remove all expenses related to incremental
costs of restoration efforts following significant storm events that are deferred and
charged to Narragansett Electric's Storm Fund. The remaining normalizing adjustments
shown on Column (g) reflect adjustments to individual expense accounts and are
described in further detail in Section D.
For Narragansett Gas, normalizing adjustments made to multiple Test Year expense
For Narragansett Gas, normalizing adjustments made to multiple Test Year expense accounts are presented on Schedule MAL-3, Page 7 in Columns (b) and (c). These
For Narragansett Gas, normalizing adjustments made to multiple Test Year expense accounts are presented on Schedule MAL-3, Page 7 in Columns (b) and (c). These adjustments fall into two categories: (1) a normalizing adjustment to the Test Year to
For Narragansett Gas, normalizing adjustments made to multiple Test Year expense accounts are presented on Schedule MAL-3, Page 7 in Columns (b) and (c). These adjustments fall into two categories: (1) a normalizing adjustment to the Test Year to remove O&M expenses related to the Gas Business Enablement Program; (2) a
For Narragansett Gas, normalizing adjustments made to multiple Test Year expense accounts are presented on Schedule MAL-3, Page 7 in Columns (b) and (c). These adjustments fall into two categories: (1) a normalizing adjustment to the Test Year to remove O&M expenses related to the Gas Business Enablement Program; (2) a normalizing adjustment to the Test Year to remove all expenses related to local
For Narragansett Gas, normalizing adjustments made to multiple Test Year expense accounts are presented on Schedule MAL-3, Page 7 in Columns (b) and (c). These adjustments fall into two categories: (1) a normalizing adjustment to the Test Year to remove O&M expenses related to the Gas Business Enablement Program; (2) a normalizing adjustment to the Test Year to remove all expenses related to local production and storage costs recovered through the Gas Cost Recovery (GCR) factor.

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The net impact of the normalizing and proforma adjustments to the cost of service are shown in the table below:

Table 2
 Summary of Normalizing and Proforma Adjustments to Operating Expense

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$608,830,578	(\$464,895,319)	\$10,983,423	\$154,918,682
Narragansett Gas	\$251,748,667	(\$162,595,195)	\$1,199,141	\$90,352,613

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#### Q. What were the adjustments to remove expenses associated with reconciling

#### mechanisms?

For Narragansett Electric, an adjustment was made to exclude all expenses associated with the energy efficiency and Renewable Energy Growth programs, and Standard Offer Service Administrative Costs recovered through an adjustment to Standard Offer Service rates, resulting in \$0 costs for those items in the adjusted Test Year. For Narragansett Gas, an adjustment was made to exclude all expenses associated with reconciling mechanisms related to the gas energy efficiency program. In addition, all purchase power and gas costs were removed from the cost of service for Narragansett Electric and Narragansett Gas, respectively. These normalizing adjustments are listed in Schedules MAL-12 through MAL-40 and are discussed in more detail in the following section for both electric and gas.

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1	Q.	What was the adjustment to remove expenses related to Narragansett Electric's
2		transmission bill credit from NEP?
3	A.	The Company has made a normalizing adjustment to various Test Year O&M expenses
4		related to Narragansett Electric's transmission bill credit from NEP for NEP's use of
5		Narragansett Electric-owned transmission facilities pursuant to the IFA. Schedule MAL-
6		3, Page 6, Line 27, of Column (b) reflects the elimination of the transmission-related
7		O&M credit for facilities supported by NEP under the IFA, or \$138,452,360. Other
8		transmission-related items supported by NEP pursuant to the IFA, such as transmission-
9		related rate base components, depreciation expense, and municipal and other taxes have
10		also been removed from the distribution revenue requirement determination for
11		Narragansett Electric in this proceeding.
12		
13	Q.	What was the normalizing adjustment to Test Year O&M expenses to remove those
14		expenses associated with vegetation management and the I&M program for
15		Narragansett Electric?
16	A.	The normalizing adjustment, reflected in Columns (c) and (d) of Page 6 of Schedule
17		MAL-3, removes vegetation management expenses and I&M program expenses,
18		respectively, recorded by Narragansett Electric during the Test Year. These costs are

being eliminated because the costs are recovered through Narragansett Electric's ISR

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factors.

1	Q.	Would you explain the normalizing adjustment for storm costs for Narragansett
2		Electric?
3	A.	Certainly. Pursuant to the operation of Narragansett Electric's Storm Fund, the
4		incremental costs of restoration efforts following significant qualifying weather events
5		are deferred and charged to Narragansett Electric's Storm Fund. When costs are initially
6		incurred, the costs are charged to the respective O&M accounts and accumulated in a
7		storm work order for identification. Once Narragansett Electric determines that a
8		particular weather event qualifies for inclusion in the Storm Fund, an expense credit is
9		recorded along with an associated charge to the Storm Fund for the incremental amount
10		eligible for Storm Fund inclusion. The expense credit, however, is recorded in a single
11		"cost type". Consequently, Column (f) on Page 6 of Schedule MAL-3 reflects the
12		reversal of the storm expense credit from Other Operation and Maintenance expense and
13		into each cost type related to the original cost incurrence The net amount of this
14		normalizing adjustment, or \$(548,379), represents the elimination of out-of-period
15		incremental storm costs recorded in the Test Year but incurred prior to the Test Year.
16		
17	Q.	What was the normalizing adjustment to Test Year O&M expenses for
18		Narragansett Gas to remove expenses associated with the Gas Business Enablement
19		Program?
20	A.	The normalizing adjustment to remove expenses associated with the Gas Business
21		Enablement Program was made by the Company to remove O&M expenses incurred for

the program during the Test Year because the Company is seeking to recover those costs

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1		through a proforma adjustment, as discussed in Section VII. That program is described in
2		detail in the joint pre-filed direct testimony of Company Witnesses Anthony H. Johnston
3		and Christopher J. Connolly. The total normalizing adjustment was a reduction in O&M
4		expenses of approximately \$1.5 million for Narragansett Gas.
5		
6	Q.	What was the normalizing adjustment to Test Year O&M expenses related to Gas
7		Cost Recovery-related O&M expense for Narragansett Gas?
8	A.	Narragansett Gas recovers costs related to local production and storage facilities through
9		its GCR factor. The Company identified \$1,088,655 of GCR-related O&M costs residing
10		in labor and other O&M expense in the Test Year. These costs were normalized out of
11		the Labor and Other O&M expense line items in the cost of service and reclassified to the
12		Gas Commodity O&M line for presentation purposes. GCR-related O&M is discussed
13		further in Section D.
14		
15	Q.	Are there other normalizing adjustments for Narragansett Electric or Narragansett
16		Gas for O&M expense items?
17	A.	Yes, there are several other, less significant normalizing adjustments that the Company
18		has made for Narragansett Electric and Narragansett Gas. These adjustments will be
19		discussed in the next section along with the description of the proforma adjustments.
20		

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1		D. Adjustments to Individual Categories of O&M Expense
2	Q.	Please generally describe the process used to adjust individual categories of O&M
3		expenses to make normalizing adjustments and proforma adjustments.
4	A.	The Company identified those accounts to which normalizing adjustments were required
5		to modify Test Year expenses as discussed herein. In addition, where changes to Test
6		Year expenses beyond the Test Year were known and measurable, the Company analyzed
7		those changes and applied the adjustments as also discussed herein. Furthermore, an
8		inflation adjustment was applied to specific O&M expenses that are not otherwise
9		adjusted for known and measurable changes through the Rate Year.
10		
11	Q.	Please describe the inflation adjustment.
12	A.	The inflation adjustment is designed to adjust Test Year expenses that have not been
13		specifically adjusted elsewhere to expected Rate Year levels. The inflation rate was
14		calculated by using a 50/50 weighting of the change in the Gross Domestic Product
15		Chain-type Index (GDP-CTI) and All Urban Consumer Price Index (CPI-U) indices from
16		the mid-point of the Test Year to the mid-point of the Rate Year. The resulting inflation
17		rate is 4.63 percent for that 26-month period. The inflation rate for the Data Years ending
18		August 31, 2020 and 2021 is 2.66 percent and 2.43 percent, respectively, measured over
19		

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#### Q. Why is it necessary to incorporate this inflation adjustment?

This inflation adjustment is required so that all Test Year expenses are reflected in the Rate Year at pro forma cost levels for the Rate Year. Each of the other Test Year expenses that are not subject to an inflation adjustment are separately adjusted or calculated to reflect the cost levels anticipated for the Rate Year. This inflation adjustment applies the same principle to the expenses not part of a specific calculation, such as labor expense. The inflation adjustment to each specific O&M expense is included in the associated Schedule on Page 5, in the Rate Year and Data Years adjustments section of the page as applicable. The inflation rate calculation is provided on Page 8 of Schedule MAL-3.

A.

A.

#### 1. Schedule MAL-12 - Labor

#### Q. What does Schedule MAL-12 provide?

Schedule MAL-12 provides the calculation of Rate Year labor expense. Rate Year labor expense primarily reflects: (1) annualized salaries of all employees of record as of June 30, 2017 who work directly for the Company or work for an affiliate providing services to the Company; (2) annualized salaries for vacant positions as of June 30, 2017, wages for seasonal and temporary employees at the level incurred during the Test Year; (3) annualized salaries for incremental full time equivalent employees to be hired after the Test Year; (4) overtime pay and the non-financial component of variable pay at the level incurred during the Test Year; and (5) all adjusted as applicable by projected wage rate increases at the Test Year level of labor charged to O&M expense through the Rate Year.

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The detailed calculations of Rate Year labor expense are provided on pages 6 through 11 in Schedule MAL-12. Pages 6 and 7 are the calculations described above for direct employees of Narragansett Electric and Narragansett Gas, respectively. Pages 8 and 9 are the calculations described above for employees of the Service Company at the Test Year proportion of labor charged during the Test Year to Narragansett Electric and Narragansett Gas, respectively. Pages 10 and 11 are the calculations described above for employees of non-Service Company affiliates at the Test Year proportion of labor charged during the Test Year to Narragansett Electric and Narragansett Gas, respectively. A summary of that schedule is provided in the table below.

Table 3

Labor Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$54,756,249	(\$7,516,038)	\$7,591,469	\$54,831,680
Narragansett Gas	\$36,022,308	(\$4,530,940)	\$3,835,607	\$35,326,975

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#### Q. What normalizing adjustment was made related to Test Year labor expense?

14 A. In addition to the various normalizing adjustments that affected several expense

15 categories including labor (discussed above), the following normalizing adjustments were

16 made to Test Year labor expense.

First, variable pay for Narragansett Electric and Narragansett Gas was reduced to reflect the fact that variable pay in the Test Year was paid above target levels.

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Second, segment reclassification adjustments were made to reverse the impact of
segment/regulatory account reporting in the Test Year. These adjustments were found to
have improperly overstated/understated each segment and were subsequently normalized
out of the Test Year.

5

#### 6 Q. Please discuss the proforma adjustment for labor expense.

- 7 A. Labor expense was adjusted for proforma adjustments to union and non-union wages.
- 8 Salary and wage expense includes employees of the Company, as well as the Service
- 9 Company and other National Grid affiliated companies. Labor expense was also adjusted
- 10 to reflect post-Test Year hires.

11

12

#### Q. What do the post-Test Year hires represent?

13 Post-Test Year hires represent additional staffing needs related to established positions A. 14 that were vacated as of Test Year end June 30, 2017 as well as incremental new hires to 15 fulfill a projected increase in workload for the following departments: Electric and Gas 16 Operations, Information Services, Customer Energy Integration, Consumer Advocate 17 Staff, Customer Meter Services (CMS), and Solar Distributed Generation; as well as 18 replacements for expected retirements in CMS, which were netted out against the planned 19 incremental additions. In total, 204 post-Test Year hires are reflected in the proforma 20 labor adjustment. This total of 204 post-Test Year hires encompasses 58 new hires for 21 Narragansett Electric, 39 new hires for Narragansett Gas, and 107 new hires for the 22 Service Company. The Company's incremental staffing requirements are discussed in

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1		the joint pre-filed direct testimony of Company Witnesses Raymond J. Rosario, Jr. and
2		Ryan M. Constable for Narragansett Electric Operations; Company Witness Alfred
3		Amaral III for Narragansett Gas Operations; Company Witness John F. Isberg for the
4		Customer Affordability Program; and Company Witnesses Anuraag Bhargava, Daniel J
5		DeMauro, Jr., and Mukund Ravipaty for Information Systems.
6		
7	Q.	Please discuss the proforma adjustment for labor expense for the Company's
8		employees.
9	A.	The proforma adjustment for the employee wages and salary expense is an increase of
10		\$4,178,066 for Narragansett Electric and \$1,837,509 for Narragansett Gas. The
11		calculation of the proforma adjustment to labor expense involves three steps: (1)
12		determining the "steady state" wages as of the end of the Test Year for employees as of
13		June 30, 2017, plus post-Test Year hires; (2) applying proforma wage increases to union
14		and non-union steady state wages; and (3) applying those same proforma increases to
15		non-financial variable pay and overtime pay. Those calculations are provided on
16		Schedule MAL-12, Pages 6 and 7, for Narragansett Electric and Narragansett Gas,
17		respectively.
18		
19	Q.	Please describe the development of "steady state" wages.
20	A.	The computation begins with normalized total base wages for the Company's union and
21		non-union employees, including seasonal workers, recorded during the Test Year. That
22		amount is adjusted to exclude base wages charged to non-O&M accounts to arrive at the

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1		net normalized Test Year O&M wage amount and to derive an associated O&M wage to
2		total wage ratio (the O&M Portion). Added to the Test Year O&M wage amounts are
3		Test Year O&M amounts for variable pay and overtime wages to arrive at total Test Year
4		O&M wages.
5		
6		Next, to derive "steady state" wages for the Test Year, the base wages of the Company's
7		employee complement as of the end of the Test Year were annualized. The steady state
8		wages do not include any temporary or seasonal employees, so the unadjusted Test Year
9		cost of those employees were added to the steady state wages. In addition, the wages for
10		the Company's post-Test Year hires were added to determine a wage base that includes
11		the Company's staffing plans.
12		
13	Q.	Please describe the escalation of steady state wages for known and measurable wage
14		increases.
15	A.	The total steady state wages are escalated by contracted and/or anticipated union wage
16		increases and the anticipated non-union wage increases effective through the end of the
17		Rate Year and for the Data Years. For non-union wages, the proforma adjustment
18		reflects a 3.64 percent increase in wages that was effective July 1, 2017. In addition,
19		forecasted increases of 3.0 percent effective July 1, 2018, July 1, 2019, and July 1, 2020
20		were reflected as proforma adjustments for the Rate Year and the Data Years. Company
21		Witness Maureen P. Heaphy discusses the basis for those adjustments in her pre-filed
22		direct testimony.

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For union wages, the proforma adjustment reflects contractually agreed upon post-Test Year union wage increases, as well as a placeholder for changes under the Local 12431 union contract that will expire prior to the end of the Rate Year. The analysis reflects a 2.25 percent increase for that contract, which is equal to the last contracted increase dated June 23, 2018. For Narragansett Electric union wages, the proforma adjustment reflects a 0.34 percent increase in wages effective from July 1, 2017 through June 30, 2018; a 2.53 percent increase in wages effective from July 1, 2018 through June 30, 2019; and a 2.74 percent increase in wages effective from July 1, 2019 through the end of the Rate Year, August 31, 2019.

In addition, forecasted increases of 3.11 percent and 2.72 percent were reflected as proforma adjustments for Data Years. For Narragansett Gas union wages, the proforma adjustment reflects a 0.15 percent increase in wages effective from July 1, 2017 through June 30, 2018; a 2.35 percent increase in wages effective from July 1, 2018 through June 30, 2019; and a 2.42 percent increase in wages effective from July 1, 2019 through the end of the Rate Year, August 31, 2019. In addition, forecasted increases of 2.73 percent and 2.24 percent were reflected as proforma adjustments for the Data Years. Company Witness Heaphy also discusses the basis for those adjustments in her pre-filed direct testimony.

The escalation of wages described above results in total Rate Year base wages. The

O&M Portion ratio is then applied to derive Rate Year O&M base wages.

1	Q.	Please describe the escalation of variable pay and overtime wages.
2	A.	The last step in the calculation is to escalate variable pay and overtime wages. First, the
3		financial metrics component of variable pay is removed from the Test Year amount,
4		consistent with the PUC's decision in Docket No. 4065. The resulting non-financial
5		variable pay and overtime wages charged to O&M are escalated by the same wage
6		increase applied to base wages, as shown on Lines 34-38 on Pages 6 and 7, and as shown
7		on Lines 38-42 on Pages 8 through 11, to arrive at Rate Year levels.
8		
9	Q.	What is the resulting total Rate Year O&M wages expense, including non-financial
10		variable pay and overtime wages?
11	A.	The resulting total Rate Year O&M wages, including non-financial variable pay and
12		overtime wages are \$21,456,387 and \$3,300,148 for Narragansett Electric's union and
13		non-union workforce, respectively, or \$24,756,535 in total. The resulting total Rate Year
14		O&M wages, including non-financial variable pay and overtime wages are \$16,703,668
15		and \$1,075,427 for the Narragansett Gas union and non-union workforce, respectively, or
16		\$17,779,095 in total.
17		
18	Q.	Please discuss the proforma labor expense adjustments for employees of the Service
19		Company and other affiliates of the Company.
20	A.	The computation of the proforma adjustment for Service Company employee wages and
21		salaries, as well as the adjustment for salary and wage expense of other affiliated

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company employees, as shown on Schedule MAL-12, Schedule 12, Pages 8-11,
respectively, is substantially the same as for the Company's employees. The exception is
that the steady state wages at Test Year end are reduced to reflect only that percentage of
total Service Company salaries and wages, or affiliated company salaries and wages,
charged to the Company. The Company's percentage of total Service Company salaries
and wages, or affiliated company salaries and wages, is determined by dividing the
Company's share of Test Year total base wages by Service Company's, or affiliated
company, total base wages, respectively. The remainder of the calculation is identical to
that described for the Company's personnel along with annual salaries and wages for 107
post-Test Year hires as described above. For Narragansett Electric, the resulting
proforma salary and wage adjustment for Service Company employees and for other
affiliated company employees is \$3,321,625 and \$91,778, respectively. For Narragansett
Gas, the resulting proforma salary and wage adjustment for Service Company employees
and for other affiliated company employees is \$1,958,835 and \$39,263, respectively.
2. <u>Schedule MAL-13 – Health Care</u>
What does Schedule MAL-13 provide?

Q.

A.

<sup>1</sup> See Decision and Order No. 19965A (issued April 29, 2010) in RIPUC Docket No. 4065, at 101-104

summary of that schedule is provided in the table below.

Schedule MAL-13 provides the calculation of Rate Year health care expense. A

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Table 4

Health Care Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$7,901,703	(\$1,186,265)	\$140,895	\$6,856,332
Narragansett Gas	\$4,439,997	\$0	\$149,986	\$4,589,983

3

## 4 Q. What normalizing adjustment was made to health care expense?

A. Normalizing adjustments were made to Test Year healthcare expense relating to the IFA, the I&M program, costs of initiatives that the National Grid Parent Company will pay for, and storms (discussed above).

8

## 9 Q. Please discuss the proforma adjustment for healthcare expense.

10 A. The Company's proposed adjustment to Test Year healthcare expense reflects proforma 11 changes based on the Company's individual plan cost rates that will be in effect for 12 calendar year 2018, which is the most recent data available regarding healthcare expense. 13 The calculation of the proforma adjustment involved three steps: (1) the application of 14 2018 healthcare program working rates to Test Year employees, based on actuarially 15 determined healthcare open enrollment elections to develop a total adjusted Test Year 16 healthcare expense; (2) the development of an average healthcare expense per employee 17 by dividing the healthcare expense restated for 2018 working rates by the total employee 18 complement as of June 30, 2017; and (3) the determination of Rate Year healthcare

expense for post-Test Year hires by multiplying the average healthcare expense per
employee by the number of post-Test Year hires.

The total Rate Year healthcare expense is equal to the sum of the healthcare expense restated for 2018 rates and the Rate Year healthcare expense for post-Test Year hires. That total amount is then allocated to O&M, and the Service Company portion is further allocated to Narragansett Electric and Narragansett Gas. Payroll inflation factors of 2.9 percent for Electric and 3.12 percent for Gas were applied to Rate Year expense to determine the level of health care expense in Data Year 1. Similarly, payroll inflation factors of 2.91 percent for Electric and 2.62 percent for Gas were applied to Data Year 1 expense to determine the level of health care expense in Data Year 2. The calculation of payroll inflation factors can be found in Schedule MAL-8. The Company's programs and recent updates thereto are discussed in the testimony of Company Witness Heaphy.

#### 3. Schedule MAL-14 – Group Life Insurance

## Q. What does Schedule MAL-14 provide?

A. Schedule MAL-14 provides the calculation of Rate Year group life insurance expense. A
 summary of that schedule is provided in the table below.

Table 5
 Group Life Insurance Expense Summary

Company	Test Year	Normalizing	Proforma	Rate Year
	Expense	Adjustments	Adjustments	Expense
Narragansett Electric	\$579,702	(\$90,186)	\$78,209	\$567,725

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Narragansett Gas	\$350,981	\$0	\$86,796	\$437,778
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## 2 Q. What normalizing adjustment was made to group life insurance expense?

A. Normalizing adjustments were made to Test Year group life insurance expense for the IFA, I&M program, National Grid Parent Company funded initiatives and storm activity

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(discussed above).

## 7 Q. Please discuss the proforma adjustment for group life insurance expense.

8 A. Group life insurance expense is the cost charged to O&M for the employer's share of 9 group life insurance. The group life insurance cost is made up of the charges associated 10 with accidental death and dismemberment (AD&D), basic life insurance, long term 11 disability (LTD), and an absence management program. To develop the Rate Year 12 expense, the payroll escalation rate was applied to those group life insurance items (i.e., 13 AD&D, Basic Life, and LTD) that increase with underlying increases to payroll. 14 Because the absence management program is a flat rate that does not increase in 15 correlation to payroll, the standard inflation adjustment (discussed above) was applied to 16 that expense. Likewise, payroll and general inflators were applied to Rate Year group 17 life insurance expense to determine the level of group life insurance expense in the Data 18 Years.

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### 4. Schedule MAL-15 – Thrift Plan

## 2 Q. What does Schedule MAL-15 provide?

A. Schedule MAL-15 provides the calculation of Rate Year thrift plan expense. The thrift plan expense adjustment relates to the cost charged to O&M for the employer's match for employee 401(k) plan contributions. The 401(k)-matching contribution applies to the Company's employees, and to Service Company and other affiliated company employees who charge time to the Company. A summary of that schedule is provided in the table below.

9 Table 6
10 Thrift Plan Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$2,489,542	\$(398,357)	\$336,053	\$2,427,238
Narragansett Gas	\$1,375,749	\$0	\$167,566	\$1,543,316

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## 12 Q. What normalizing adjustment was made to thrift plan expense?

13 A. Normalizing adjustments were made to Test Year thrift plan expense for the IFA,

14 inspection and maintenance program, Parent Company funded initiatives and storm

15 activity (discussed above).

16

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## Q. Please discuss the proforma adjustment for employee thrift plan expense.

A. Because 401(k) matching is based on a percentage of employees' salaries, the proforma adjustment applied the overall percentage increase between adjusted Test Year wages and

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Rate Year wages to the adjusted Test Year thrift plan expense.<sup>2</sup> Rate Year base salaries and wages for the Company, Service Company, and other affiliate company employees are, in aggregate, 16.07 percent higher for Narragansett Electric and 12.18 percent higher for Narragansett Gas than the comparable Test Year amount. Therefore, the Company's O&M expense to match employee thrift contributions was increased by those same percentages.

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### 5. Schedule MAL-16 – FAS 112 Expense/ASC 712

## Q. What does Schedule MAL-16 provide?

10 A. Schedule MAL-16 provides the calculation of Rate Year FAS 112 expense. A summary of that schedule is provided in the table below.

12

Table 7
FAS 112 Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$(333,759)	\$333,759	\$0	\$0
Narragansett Gas	\$(238,762)	\$238,762	\$0	\$0

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The overall percentage increase between adjusted Test Year wages and Rate Year wages is shown on Schedule MAL-8.

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Q. What is FAS 112 expense, and what adjustment was made	e to it?
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A. Financial Accounting Standard No. 112 (FAS 112) was issued by the Financial Accounting Standards Board (FASB) in 1992 requiring employers to record the costs of benefits provided to employees who are in an inactive work status, primarily employees who are on long-term disability. Those benefits include income replacement and life insurance for those inactive employees, as well as healthcare benefits for the employee and their dependents. Accounting standards were codified in recent years and FAS 112 is now Accounting Standard Codification 712, or ASC 712, but I will refer to this cost as FAS 112 expense herein. In this case, both the Test Year and the five-year average for FAS 112 expense are negative expenses. That is because adjustments in any year can increase or decrease the reserve (resulting in positive or negative expense). It is not reasonable to expect, however, that decreases to the reserve and the resulting negative expense would occur on a sustained, long-term basis. Furthermore, the reflection of a negative accrued expense would result in positive income in the cost of service, which is not a reasonable assumption about the long-term effect of providing post-employment benefits. Therefore, the normalizing adjustment to FAS 112 expense is to offset the negative expense amounts for both Narragansett Electric and Narragansett Gas, resulting in the reflection of \$0 in the revenue requirement related to FAS 112 expense.

6. Schedule MAL-17 – Service Company Rents

### Q. What does Schedule MAL-17 provide?

- 1 A. Schedule MAL-17 provides the calculation of Rate Year Service Company rents expense.
- A summary of that schedule is provided in the table below.

3

Table 8

Service Company Rents Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$13,985,369	\$(6,178,038)	\$3,810,421	\$11,617,751
Narragansett Gas	\$3,077,583	\$(398,871)	\$1,238,972	\$3,917,684

6

## 7 Q. What are Service Company rents?

- 8 A. Service Company rents are costs related to IS and facilities used by the Company that are
- 9 owned by the Service Company. The Service Company charges Narragansett Electric
- and Narragansett Gas, along with other affiliated companies, for an allocated share of the
- depreciation and an associated return on those investments.

12

## 13 Q. What normalizing adjustment was made to Service Company rents?

- 14 A. A normalizing adjustment was made to restate the allocation of Service Company rents to
- Narragansett Electric and Narragansett Gas based on a true-up of the return on and of
- capital calculations for those charges.

17

18 Q. Please discuss the proforma adjustment for IS and facilities rental expense.

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A.	Charges from the Service Company for IS systems and facilities rent expense includes an
	allocated share of depreciation and a return on investment. The IS proforma adjustment
	relates to anticipated system additions and enhancements, through the Rate Year, offset
	by a reduction in the return paid to the Service Company on systems and facilities that
	were in-service calculated to the end of the Test Year. A detailed list of each IS project is
	provided in Workpapers MAL-6a to MAL-6d. A detailed list of facilities investments is
	provided in Workpapers MAL-6e to MAL-6h. The workpapers include the following:
	(1) the project name; (2) the overall program within which the project is developed $(e.g.,$
	cyber security, technology modernization); (3) the total investment amount; (4) the in-
	service date; and (5) the total rent charged to Narragansett Electric and Narragansett Gas.
	The new IS systems additions and enhancements are discussed in the joint pre-filed direct
	testimony of Company Witnesses Anuraag Bhargava, Daniel J. DeMauro, and Mukund
	Ravipaty.
	The total annual Company's pro forma adjustment for those investments as described
	above is \$3,810,421 for Narragansett Electric and \$1,238,972 for Narragansett Gas in the
	Rate Year. The Company's pro forma adjustment for Data Year 1 is \$611,028 for
	Narragansett Electric, and \$308,274 for Narragansett Gas. The Company's pro forma
	adjustment for Data Year 2 is \$(163,470) for Narragansett Electric, and \$21,001 for
	Narragansett Gas.
	A.

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## 7. <u>Schedule MAL-18 – Joint Facilities</u>

## 2 Q. What does Schedule MAL-18 provide?

3 A. Schedule MAL-18 provides the calculation of Rate Year joint facilities expense. A

4 summary of that schedule is provided in the table below.

5

1

6 Table 9

7 Joint Facilities Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$1,018,396	\$0	\$47,152	\$1,065,547
Narragansett Gas	\$561,452	\$0	\$25,995	\$587,447

8

## 9 Q. What adjustments were made to joint facilities expense?

10 A. Schedule MAL-18 reflects an inflation adjustment on Test Year joint facilities expense.

11

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## 8. <u>Schedule MAL-19 – Uninsured Claims</u>

## 13 Q. What does Schedule MAL-19 provide?

14 A. Schedule MAL-19 provides the calculation of Rate Year uninsured claims expense. A

summary of that schedule is provided in the table below.

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# Table 10 2 Uninsured Claims Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$801,565	(\$121,599)	\$1,178,663	\$1,858,628
Narragansett Gas	\$846,495	\$0	(\$201,634)	\$644,861

3

## 4 Q. Please discuss the adjustment proposed for uninsured claims expense.

- 5 A. Normalizing adjustments to uninsured claims were made for the IFA, the I&M program,
- National Grid Parent Company funded initiatives and storm activity. In addition, the Test
- 7 Year level of uninsured claims expense accrual has been adjusted by \$1,178,663 for
- 8 Narragansett Electric and (\$201,634) for Narragansett Gas to reflect the five-year average
- 9 of actual claims paid in the Rate Year. Schedule MAL-19 also reflects a general inflation
- adjustment on uninsured claims expense for the Data Years.

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## 9. Schedule MAL-20 – Insurance Premiums

### Q. What does Schedule MAL-20 provide?

- 14 A. Schedule MAL-20 provides the calculation of Rate Year insurance premiums expense. A
- summary of that schedule is provided in the table below.

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Table 11
2 Insurance Premiums Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$2,097,226	(\$286,841)	\$280,149	\$2,090,894
Narragansett Gas	\$828,984	\$0	\$92,940	\$921,924

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## 4 Q. What normalizing adjustment was made to insurance premiums expense?

A. A normalizing adjustment was made to insurance premiums expense to remove the
 impact of IFA on Test Year insurance premiums.

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A.

## 8 Q. Please discuss the proforma adjustment for insurance premium costs.

First, the adjustment compares the most recently received insurance premium bills, along with the respective allocations to the Company, to the Company's Test Year level of insurance expense. Second, the adjustment inflates each insurance premium from the midpoint of the period of coverage to the midpoint of the Rate Year using the general inflation rate. Those adjustments total \$527,497 for Narragansett Electric and \$92,940 for Narragansett Gas. The Rate Year insurance premiums for Narragansett Electric are then changed for amounts billed through the IFA, resulting in a decrease to Rate Year expense of \$247,348 for a net proforma adjustment of \$280,149. General inflation was applied to determine the level of insurance premium expense in the Data Years.

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## 10. <u>Schedule MAL-21 – Regulatory Assessment Fees</u>

## 2 Q. What does Schedule MAL-21 provide?

- 3 A. Schedule MAL-21 provides the calculation of Rate Year regulatory assessments expense.
- 4 A summary of that schedule is provided in the table below.

5

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Table 12
 Regulatory Assessments Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$4,964,621	(\$678,167)	\$0	\$4,286,454
Narragansett Gas	\$1,897,662	\$0	\$0	\$1,897,662

8

## 9 Q. What normalizing adjustment was made to regulatory assessments?

- 10 A. An adjustment was made to remove the costs associated with IFA from the Narragansett
- 11 Electric Test Year expense.

12

## 13 Q. Please discuss the proforma adjustment for regulatory assessment fees.

- 14 A. The Company has not received its regulatory assessments for the fiscal year 2018 as of
- the filing of this rate case. Consequently, there is currently no proforma adjustment
- reflected in the regulatory assessment fee expense, but the Company plans to update the
- 17 Rate Year amount for regulatory assessments once the new assessments are received.

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## 11. <u>Schedule MAL-22 – Uncollectible Accounts</u>

## 2 Q. What does Schedule MAL-22 provide?

- 3 A. Schedule MAL-22 provides the calculation of Rate Year uncollectible accounts expense.
- 4 A summary of that schedule is provided in the table below.

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Table 13
Uncollectible Accounts Expense Summary

	Test Year	Normalizing	Proforma	
Company	Expense	Adjustments	Adjustments	Rate Year Expense
Narragansett Electric	\$8,952,665	(\$4,987,981)	\$157,586	\$4,122,270
Narragansett Gas	\$4,025,491	\$1,693,337	(\$2,012,142)	\$3,706,686

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### 9 Q. What normalizing adjustment was made related to uncollectible accounts expense?

10 A. The normalizing adjustment to uncollectible accounts expense removes the commodity-11 related portion of that expense.

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A.

## Q. Please discuss the proforma adjustment for uncollectible expense.

Uncollectible expense recorded during the Test Year was adjusted to reflect a five-year average ratio of actual delivery net write-offs to delivery revenue. Specifically, PUC precedent holds that uncollectible accounts expense should be recovered at a level equal to actual account net write-off experience rather than recovery of bad debt expense recorded in accordance with Generally Accepted Accounting Principles (GAAP). The ratio of delivery service net write-offs to delivery service revenue averaged over the five

years (as calculated in RIPUC Docket Nos. 4323 and 4065) ending with the Test Year was 1.30 percent for Narragansett Electric resulting in allowable delivery uncollectible expense of \$4,122,270. When the adjusted Test Year uncollectible expense for Narragansett Electric of \$3,964,684 is subtracted from the allowable delivery uncollectible expense, the resulting proforma adjustment is \$157,586. Similarly, the ratio of delivery service net write-offs to delivery service revenue averaged over the five years (as calculated in RIPUC Docket Nos. 4323 and 3943) ending with the Test Year was 2.08 percent for Narragansett Gas resulting in allowable delivery uncollectible expense of \$3,706,686. When the adjusted Test Year uncollectible expense for Narragansett Gas of \$5,718,828 is subtracted from the allowable delivery uncollectible expense, the resulting proforma adjustment is (\$2,012,142).

## 12. Schedule MAL-23 – Postage

## Q. What does Schedule MAL-23 provide?

15 A. Schedule MAL-23 provides the calculation of Rate Year postage expense. A summary of that schedule is provided in the table below.

# Table 14 Postage Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$2,460,952	(\$16,697)	\$113,169	\$2,557,424
Narragansett Gas	\$1,319,478	(7,410)	\$60,749	\$1,372,817

## 1 Q. What adjustments were made to postage?

- 2 A. A normalizing adjustment was made to annualize the impact of the U.S. Postal Service
- 3 2017 commercial metered first-class rate, which decreased to \$0.460 from the Test Year
- 4 rate of \$0.465, effective January 2017.

5

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### 13. Schedule MAL-25 – Environmental Response Fund

## 7 Q. What does Schedule MAL-25 provide?

- 8 A. Schedule MAL-25 provides the allowance of \$3,078,000, which is the annual
- 9 contribution to Narragansett Electric's Environmental Response Fund as provided in its
- Environmental Response Fund Provision, RIPUC No. 2173.

11

12

## **Environmental Response Fund**

Table 15

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$3,078,000	\$0	\$0	\$3,078,000
Narragansett Gas	\$0	\$0	\$0	\$0

13

## 14. <u>Schedule MAL-26 – Paperless Bill Credit</u>

### 14 Q. What does Schedule MAL-26 provide?

- 15 A. Schedule MAL-26 provides the calculation related to the Company's proposal regarding
- paperless bill credits.

17

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Table 16
Paperless Bill Credits

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$0	\$551,281	\$0	\$551,281
Narragansett Gas	\$0	\$265,235	\$0	\$265,235

A.

## Q. What are paperless bill credits, and what adjustment was made related to them?

To encourage additional customers to take advantage of paperless billing, the Company currently offers customers a monthly credit when those customers enroll in the paperless billing program. The paperless bill credit adjustment adds back the cost savings generated during the Test Year by customers who elected the paperless billing option. In doing so, the base distribution rates will be established assuming the full costs of paper billing for all customers, and will isolate the paperless billing savings on a per customer basis and deliver that benefit to the individual customers generating the savings through a bill credit in the amount of (\$0.37) per monthly bill for both Narragansett Electric and Narragansett Gas customers based on the Test Year average monthly bill costs for each of the Company's operations. The adjustment to the cost of service in the amount of \$551,281 for Narragansett Electric and \$265,235 for Narragansett Gas represents the actual cost savings of paperless bills rendered during the Test Year.

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1 Schedule MAL-27 – PBOP Expenses and Schedule MAL-28 – Pension Expense

## 3 Q. What does Schedule MAL-27, Schedule MAL-28 provide?

4 A. Schedule MAL-27 and Schedule MAL-28 provide the Test Year normalizing adjustments

for pension and PBOP expenses. A summary of those schedules is available below:

# Table 17A Pensions Summary

	Test Year	Normalizing	Proforma	Rate Year
Company	Expense	Adjustments	Adjustments	Expense
Narragansett Electric	\$14,856,485	(\$2,190,304)	(\$6,432,780)	\$6,233,401
Narragansett Gas	\$7,383,350	\$0	(\$4,026,744)	\$3,356,606

9 **Table 17B** 10 **PBOP Summary** 

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$5,421,584	(\$740,588)	\$220,376	\$4,901,371
Narragansett Gas	\$2,492,494	\$0	(\$3,683,218)	(\$1,190,723)

12

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## 13 Q. What adjustments were made to Pension and PBOP Expense?

14 A. Normalizing adjustments were made that relate to the IFA. These adjustments are
15 provided on Workpaper MAL-1. Adjustments relating to initiatives funded by the parent
16 company are provided on Schedule MAL-3.

1	Q.	What is the Company's proposal in this case with respect to the recovery of pension
2		and PBOP expense?
3	A.	In the 2012 Rate Case, the PUC approved implementation of the Pension/PBOP
4		Adjustment Mechanism (PAM) for Narragansett Electric, and also approved the
5		continuation of the PAM for Narragansett Gas. The Narragansett Gas PAM was initially
6		approved in Docket No. 3943 (2008 Gas Rate Case). The PAM reconciles annual
7		pension and PBOP expense with a base amount established in distribution rates through a
8		base-rate proceeding and allows for recovery of the difference between the base amount
9		and the annual expense amount outside of base rates. The Company's proposal in this
10		case is to update the base amounts using the latest actuarial forecast of expense.
11		
12	Q.	Would you please review how the PAM currently operates?
13	A.	Yes. The Company has calculated the revenue requirement using the Rate Year pension
14		and PBOP expense amounts as the Base PAM amounts. By August 1 of each year for
15		Narragansett Electric and September 1 for Narragansett Gas, the Company will propose a
16		Pension Adjustment Factor (PAF) for Narragansett Electric to collect or refund the
17		reconciling amount of actual pension/PBOP expense versus rate recovery for the previous
18		year-ended March 31.
19		
20	Q.	How did you update the Base PAM amounts in Schedules MAL-27 and MAL-28?
21	A.	The Base PAM amount in Schedules MAL-27 and MAL-28 reflect projected pension and
22		PBOP expense for the Rate Year ended August 31, 2019. Since pension and PBOP

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1		expense are reconciling costs, the Company has assumed the same Base PAM amounts
2		for Data Year 1 and Data Year 2. The Company's actuarial information used to calculate
3		the Base PAM amounts is based on the Company's March 31 fiscal year (FY).
4		Consequently, the Base PAM amounts for the Rate Year ended August 31, 2019 reflects
5		seven months of actuarial amounts for FY 2019 and five months of actuarial forecasted
6		costs for FY 2020. These actuarial amounts are provided in Workpaper MAL-8. The
7		applicable pension and PBOP costs from Workpaper MAL-8 for Narragansett Electric,
8		Narragansett Gas and the Service Company are summarized on Page 7 of Schedules
9		MAL-27 and MAL-28, respectively. The amounts summarized on Page 7 are the service
10		cost and non-service cost components of pension and PBOP costs.
11		
12	Q.	Why are pension and PBOP costs summarized as service costs and non-service
12 13	Q.	Why are pension and PBOP costs summarized as service costs and non-service costs?
	<b>Q.</b> A.	
13		costs?
13 14		costs?  In March 2017, FASB amended ASC 715, which outlines specific accounting treatment
<ul><li>13</li><li>14</li><li>15</li></ul>		costs?  In March 2017, FASB amended ASC 715, which outlines specific accounting treatment for compensation and retirement benefits. Pension and PBOP costs can be summarized
13 14 15 16		costs?  In March 2017, FASB amended ASC 715, which outlines specific accounting treatment for compensation and retirement benefits. Pension and PBOP costs can be summarized into two components: (1) service costs which are the estimated benefits earned by
13 14 15 16 17		costs?  In March 2017, FASB amended ASC 715, which outlines specific accounting treatment for compensation and retirement benefits. Pension and PBOP costs can be summarized into two components: (1) service costs which are the estimated benefits earned by employees through active service; and (2) non-service costs, which include interest cost,
13 14 15 16 17		costs?  In March 2017, FASB amended ASC 715, which outlines specific accounting treatment for compensation and retirement benefits. Pension and PBOP costs can be summarized into two components: (1) service costs which are the estimated benefits earned by employees through active service; and (2) non-service costs, which include interest cost, expected returns on the assets in the plans, and amortization of prior service costs and
13 14 15 16 17 18		costs?  In March 2017, FASB amended ASC 715, which outlines specific accounting treatment for compensation and retirement benefits. Pension and PBOP costs can be summarized into two components: (1) service costs which are the estimated benefits earned by employees through active service; and (2) non-service costs, which include interest cost, expected returns on the assets in the plans, and amortization of prior service costs and actuarial gains and losses. Prior to the amendment, both service costs and non-service

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1		filings for FY 2017. In those filings, the Company informed the PUC about these
2		accounting changes and made a recommendation for the treatment of the changes for
3		establishing the amount of pension and PBOP expenses to be recovered from customers
4		through the PAM reconciliation mechanism. The PUC approved the Company's electric
5		and gas PAM reconciliation filings without modification.
6		
7	Q.	How is the Company implementing the changes to the FASB accounting rules?
8	A.	The Company's implementation of the change in FASB accounting rules means that the
9		PAM continues to operate unchanged. Non-service costs have always been included in
10		the PAM, but only the non-capitalized component of non-service costs. In its August 1,
11		2017 electric and gas PAM filings, the Company proposed to include non-service costs
12		charged to O&M expense in the PAM, including the portion that can no longer be
13		capitalized when the new accounting rules are adopted. In other words, all non-service
14		costs charged to O&M expense are included in the costs reconciled to the pension and
15		PBOP costs being recovered in base rates as the reconciliation was designed and
16		approved to operate.
17		
18	Q.	Did the Company consider other options for addressing this accounting change?
19	A.	Pension and PBOP costs have always been allowed to be recovered from customers in
20		one form or another, either as an O&M expense in base rates or recovered as a
21		component of capitalized constructed assets. Since a portion of the non-service
22		component of pension and PBOP costs has always been allowed to be recovered as part

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of the cost of constructed assets, the Company could have decided to not adopt the FASB accounting standards change when filing its financial statements to the PUC, and continue to capitalize a portion of non-service costs as it always has. However, as explained in its August 1, 2017 electric and gas PAM filings, this approach would require the Company to maintain one set of books for U.S. GAAP reporting and a separate set of books for reporting to the PUC. Such treatment would have resulted in a significant burden to the Company in a number of ways, including the following:

- (a) The Company's accounting systems would need to be modified significantly to accommodate two separate capitalization approaches at a significant one-time cost. Such modifications would require a software customization that would need to be carried forward, adding significant costs to each future system upgrade or replacement.
- (b) To ensure the accuracy of both parallel property accounting systems, additional procedures and controls would need to be established, including the reconciliation of amounts and balances between the two systems.
- (c) As previously noted, the complexities of divergent systems would result in significant one-time costs as well as increased ongoing operating costs, all of which would ultimately be borne by customers. The Company does not currently have an estimate of these increased costs. However, costs associated with essentially doubling the number of plant asset records would include the following costs: cost of additional personnel in Plant

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1		Accounting, General Accounting, Finance, Information Services, and
2		potentially other departments; increased computing costs associated with
3		increased processing time to close the books each month; and additional
4		computer hardware investment (e.g. among other things, servers and data
5		storage medium).
6		
7	Q.	When will this FASB amendment be adopted by the Company?
8	A.	The new FASB accounting rules are required to be implemented in the fiscal year
9		following December 15, 2017 for public companies that file financial statements with the
10		Securities Exchange Commission (SEC). National Grid's U.S. operating companies are
11		not public companies and do not file financial statements with the SEC. Therefore,
12		National Grid's U.S. operating companies would be required to adopt the new accounting
13		rules no later than the fiscal year following December 15, 2018. For the Company, this
14		would be April 1, 2019, which is the start of its Fiscal Year 2020. However, non-public
15		companies could choose to adopt these rules earlier consistent with the timing of public
16		SEC registrant companies. The Company has not decided yet whether to adopt these new
17		rules on April 1, 2018 or April 1, 2019.
18		
19	Q.	What adoption date was assumed for calculating the Base PAM amounts for the
20		Rate Year in Schedules MAL-27 and MAL-28?
21	A.	The Company assumed that the amendment would be adopted in FY 2019.
22		Consequently, the Company has calculated this change as if it were in effect for the

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	entirety of the Rate Year in this proceeding. This approach is deemed to be reasonable
	because pension and PBOP expenses are reconciling costs, and the Company will
	ultimately recover only its actual expense. Also, five months of the Rate Year will occur
	in FY 2020, which is the Test Year that the Company will be required to adopt the FASB
	amendment. The Base PAM amounts calculated for the Rate Year in Schedules MAL-27
	and MAL-28 are merely proxy amounts set to establish a reasonable level of cost
	recovery that will be trued up and recovered on an actual basis from customers. Lastly,
	the Data Years reflect the same level of pension and PBOP expense derived for the Rate
	Year because these costs can be volatile and because the costs are reconciling. The
	amendment will be fully in effect before the start of the Data Years, which is further
	justification for assuming that the amendment is to be adopted in FY 2019.
Q.	Please continue explaining how you determined the Base PAM amounts for the Rate
	Year in Schedules MAL-27 and MAL-28.
A.	The calculation of the Base PAM amounts for the Rate Year is performed on Page 6 of
	Schedules MAL-27 and MAL-28 for PBOP and pension expense, respectively. The
	actuarial amounts summarized on Page 7 are carried forward to Page 6. Fair value
	amortization amounts are also carried to Page 6 from Workpaper MAL-8, Pages 21 and
	22 as applicable. Electric amounts are captured in Columns (a) through (c) on Page 6,
	while Gas figures are captured in Columns (d) through (f) on that page. Columns (a) and
	(d) reflect seven months of FY 2019 actuarial costs and fair value amortization,

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1	respectively, while columns (b) and (e) reflect five months of FY 2020 actuarial costs and
2	fair value amortization.
3	The applicable capitalization rate is applied to only the service cost component and the
4	fair value amortization amounts to arrive at the capitalized costs on Lines 7 and 15 of
5	Page 6. The capitalization rate used represents 1 minus the O&M percentages calculated
6	on Schedule 12, Pages 6 to 9. The capitalized amounts are deducted from the total PBOP
7	and pension costs that were carried over from Page 7 to arrive at PBOP and pension
8	expense for Narragansett Electric, Narragansett Gas and the Service Company. These
9	amounts are summarized on Line 18. Pension and PBOP costs charged to Narragansett
10	Electric and Narragansett Gas from other affiliates at the Test Year level are added to the
11	amounts on Line 18 to arrive at the total Rate Year pension and PBOP expense. These
12	totals establish the Base PAM amounts that will eventually be reconciled to actual

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## 16. <u>Schedule MAL-29 – Energy Efficiency Program Expenses</u>

## Q. What does Schedule MAL-29 provide?

pension and PBOP expense.

Schedule MAL-29 provides the Test Year normalizing adjustments for energy efficiency expenses. As discussed earlier in my testimony, an adjustment was made to exclude all expenses associated with non-base rate mechanisms related to energy efficiency programs, resulting in \$0 for those items in the adjusted Test Year.

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# Table 18 Energy Efficiency Program Expense

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$73,467,743	(\$73,467,743)	\$0	\$0
Narragansett Gas	\$23,701,929	(\$23,701,929)	\$0	\$0

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Q.

## 17. Schedule MAL-30 – Other O&M Expenses

## What does Exhibit MAL-30 provide?

A. Schedule MAL-30 provides a summary of other O&M expenses (Other O&M). Other

O&M includes: (1) consultants; (2) contractors; (3) donations; (4) employee expenses;

(5) hardware; (6) software; (7) other expenses; (8) third party rents; (9) construction

reimbursement; (10) materials purchased from outside vendors; (11) materials expense

from inventory; (12) materials expense from stores handling; (13) transportation; (14)

paving; (15) miscellaneous expenses; and (16) other benefits.

12

Table 19Other O&M Expenses

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$59,391,324	(\$22,300,027)	\$1,718,103	\$38,809,400
Narragansett Gas	\$27,394,172	(\$1,192,356)	\$1,213,039	\$27,414,855

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1	Q.	Did the normalizing adjustments that affected multiple O&M expenses, discussed
2		earlier in your testimony, affect any of the Other O&M accounts?
3	A.	Yes. Normalizing adjustments that were discussed in Section C affected many Other
4		O&M accounts. Schedule MAL-3, "Operation & Maintenance Expense Summary" was
5		described earlier in my testimony. Pages 6 and 7 of Schedule MAL-3 provides a
6		summary of many of the normalizing adjustments that affected multiple Electric and Gas
7		O&M accounts, respectively. These include Electric normalizing adjustments on Page 6
8		of Schedule MAL-3 to remove expenses associated with: (1) IFA costs recovered from
9		NEP; (2) vegetation management costs and inspection and maintenance costs both
10		recovered through the Electric ISR; (3) costs of initiatives that are to be absorbed by the
11		Company's parent company; and (4) major storm costs charged to Other O&M expense
12		that are ultimately recovered in the Storm Fund.
13		These adjustments represent (\$18.5 million) of total Other O&M normalizing
14		adjustments of (\$22.3 million). The remaining (\$3.8 million) of normalizing adjustments
15		include the completion of the amortization of prepaid information system costs; the
16		removal of other non-base rate recoverable costs; the removal of executive employee
17		expenses, and other costs. Gas normalizing adjustments to Other O&M accounts on Page
18		7 of Schedule MAL-3 remove expenses associated with: (1) Gas Business Enablement
19		costs incurred in the Test Year that are proposed to be recovered over the period of the
20		Gas Business Enablement initiatives, and (2) costs recovered through the GCR
21		mechanism as Production & Storage costs. These adjustments total (\$1.7 million). Total
22		Gas Other O&M normalization adjustments are (\$1.1 million). All other Gas

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normalizing adjustments to Other O&M accounts of \$0.6 million include recoverable advertising and donation costs reclassified from non-operating accounts.

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## 18. <u>Schedule MAL-31 – Storm Cost Recovery</u>

## 5 Q. What does Schedule MAL-31 provide?

6 A. Schedule MAL-31 provides the calculation related to the Company's proposal regarding

7 Narragansett Electric's Storm Fund.

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# Table 20 Storm Cost Recovery

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$7,338,972	(\$27,840)	(\$287,406)	\$7,023,726
Narragansett Gas	\$0	\$0	\$0	\$0

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## Q. What is the adjustment that was made related to the Storm Fund?

A. Narragansett Electric's proposal for recovery of storm costs is discussed in detail in Section IX. In that section, I discuss a proposal to continue the annual Storm Fund collections of \$4,311,132 along with the \$3,000,000 annually, designed to extinguish the current Storm Fund deficiency, which was approved by the PUC in Docket No. 4686.

The sum of these two amounts, \$7,311,132, is shown on Schedule MAL-31, Page 1, Line 4, Column (h).

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## Q. What other adjustment that was made related storms?

2 A. A proforma adjustment of \$(287,406) is shown on Schedule MAL-31, Page 2, Line 4.

This adjustment reflects the amount that the Test Year O&M expense was adjusted to

reflect the five-year average for storms with O&M expense below the \$1.1 million

Storm Fund threshold per the Joint Proposal and Settlement Agreement filed with the

PUC on September 25, 2017, Docket No. 4686.

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## 19. Schedule MAL-32 – O&M through the GCR (Production and Storage)

## Q. What does Schedule MAL-32 provide?

10 A Schedule MAL-32 provides O&M costs that are recovered through other non-base rate

mechanisms, which are amounts that the Company is removing from the cost of service.

These costs are disaggregated between labor and non-labor expense and totals

\$1,308,279. Page 5 of Schedule MAL-32 provides a breakdown of the areas involved.

14

15 **Table 21** 

16 **O&M Collected through the GCR** 

	Test Year	Normalizing	Proforma	Rate Year
Company	Expense	Adjustments	Adjustments	Expense
Narragansett Electric	\$0	\$0	\$0	\$0
Narragansett Gas	\$0	\$1,308,279	(\$1,308,279)	\$0

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## 20. Schedule MAL-33 – NEP IFA Credit

## 2 Q. What does Schedule MAL-33 provide?

A. Schedule MAL-33 provides the elimination of Narragansett Electric's transmission bill credit from its affiliate NEP for use of Narragansett Electric-owned transmission facilities pursuant to the IFA between Narragansett Electric and NEP. Page 1, Line 4 of Column (e) reflects the total elimination of the transmission-related O&M credit for facilities supported by NEP under the IFA, or \$138,452,360.

8 Table 22
9 NEP IFA Credit

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	(\$138,452,360)	\$138,452,360	\$0	\$0
Narragansett Gas	\$0	\$0	\$0	\$0

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### 21. Schedule MAL-34 – Wheeling

## 12 Q. What does Schedule MAL-34 provide?

A. Schedule MAL-34 provides the elimination of Narragansett Electric's transmission wheeling charges that are recovered outside of base rates through the Company's Transmission Service Cost Adjustment Provision (TSCAP).

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Table 23
Wheeling Adjustments

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$179,791,010	(\$179,791,010)	\$0	\$0
Narragansett Gas	\$0	\$0	\$0	\$0

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Q.

## 22. <u>Schedule MAL-35 – Energy Innovation Hub</u>

## What does Schedule MAL-35 provide?

A. Schedule MAL-35 provides the calculation related to the Company's proposal regarding
 the Energy Innovation Hub.

Table 24

9 Energy Innovation Hub Adjustments

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$0	\$0	\$186,193	\$186,193
Narragansett Gas	\$0	\$0	\$101,186	\$101,186

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A.

## 11 Q. What is the Energy Innovation Hub, and what adjustment was made related to it?

The Energy Innovation Hub, located in the Dunkin' Donuts Center in downtown Providence, is a community engagement destination designed to expand customer education and outreach, and to enrich customers' understanding of energy and the options available to them to manage their energy use. An adjustment was made to exclude 50 percent of the total costs, or \$287,379, which are recovered through the Company's

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Energy Efficiency Program Plan for 2018 filed with the PUC on November 1, 2017 in
Docket No. 4755. Company Witness Isberg discusses the Energy Innovation Hub in
more detail in his pre-filed direct testimony.

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## 23. Schedule MAL-36 – Gas Business Enablement

## Q. What does Schedule MAL-36 provide?

A. Schedule MAL-36 provides the calculation related to the Company's proposal regarding

National Grid's Gas Business Enablement Program. As further discussed below, an

adjustment was made to exclude O&M costs that were incurred during the Test Year. A

summary of Schedule MAL-36 is provided in the table below.

11 12

Table 25
Gas Business Enablement Program Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$0	\$0	\$619,618	\$619,618
Narragansett Gas	\$0	\$0	\$4,133,125	\$4,133,125

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## Q. Has the Company made a normalizing adjustment for costs related to the Gas

## **Business Enablement Program that were included in the Test Year?**

16 A. Yes. The Test Year includes certain non-recurring costs for the Gas Business
17 Enablement Program related to the development of the business case, assessment of
18 processes and applications, and high-level design for the Gas Business Enablement
19 Program. The Company has made a normalizing adjustment of \$1.5 million for

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2		shown on Schedule MAL-30.
3	Q.	Are there any incremental post-implementation operating costs associated with Gas
4		Business Enablement?
5	A.	Yes. As shown on Schedule MAL-36, the Company will incur additional operating costs
6		to support the Gas Business Enablement Program post-implementation. These costs
7		include: (i) a team to support business functions in the use of the new systems, design
8		new processes to take full advantage of the new system, and monitor business controls
9		embedded in the system; (ii) hardware, software, and mobile solutions license
10		maintenance fees and subscriptions; and (iii) support costs to maintain certain legacy
11		applications following implementation until these legacy applications are replaced or
12		maintained in an upgraded future state, as appropriate. These costs are further described
13		in the Joint Pre-filed Direct Testimony of Company Witnesses Johnston and Connolly.
14		
15	Q.	Please describe the proforma adjustment associated with the Company's Gas
16		Business Enablement Program.
17	A.	The Company's proposed proforma adjustments to the adjusted Test Year cost of service
18		for Narragansett Electric and Narragansett Gas represents the sum of the return of and on
19		capital investments for the Gas Business Enablement Program to be placed in service
20		over the period Fiscal Year 2018 through Fiscal Year 2023, plus incremental O&M costs,
21		amortized over a ten-year period. For Narragansett Electric, the proforma adjustment is
22		\$619,618 in the Rate Year, \$611,424 in Data Year 1, and \$557,442 in Data Year 2. For

Narragansett Gas to remove these non-recurring costs from Rate Year Other O&M as

Narragansett Gas, the proforma adjustment is \$4,133,125 in the Rate Year, \$4,632,523 in Data Year 1, and \$4,815,707 in Data Year 2. Those calculations and the supporting data are provided in Schedule MAL-36. I further discuss the Company's proposal for cost recovery in Section VII of my testimony.

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## 24. <u>Schedule MAL-37 – Electric Operations Expenses</u>

# What does Schedule MAL-37 provide?

These proforma adjustments totaling \$611,550 on schedule MAL-37, at Page 2, Line 4, Column (e) are related to the Company's proposal for non-labor O&M costs associated with (1) \$65,000 for an online interconnection application portal resulting from the growing number of applications; (2) \$41,550 related to additional crane operator licenses for 30 employees pursuant to Occupational Safety and Health Administration (OSHA) regulations; (3) \$441,000 for the lease of three trouble trucks to improve truck availability and response times in Rhode Island; and (4) \$64,000 related to two trucks needed for the proposed two additional FTEs in Protection Telecommunications Operations.

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Table 26
Electric Operations Expense

Company	Test Year	Normalizing	Proforma	Rate Year
	Expense	Adjustments	Adjustments	Expense
Narragansett Electric	\$0	\$0	\$611,550	\$611,550

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In the Data Years, the Company is proposing additional non-labor costs associated with the interconnection portal and reducing the required number of crane operator licenses.

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The programs are discussed in more detail in the Joint Testimony of Company Witnesses
Raymond J Rosario, Jr., Alfred Amaral II, and Ryan M. Constable.

Q.

## 25. Schedule MAL-38 – Gas Operations Expenses

# What does Schedule MAL-38 provide?

A. Schedule MAL-38 provides the calculation related to the Company's proposal for non-labor O&M costs associated with its safety and compliance program. These proforma adjustments totaling \$1,032,482 on Schedule MAL-38, at Page 2, Line 4, Column (f) are additional funding for the following programs: (1) \$300,000 per year for inspections in connection with its integrity management Program; (2) \$300,000 per year for records review in connection with its integrity verification process programs; (3) \$200,000 per year for enhancements to its public awareness program; (4) training required for new regulations and to maintain qualification to work on the gas distribution system; and (5) proposing to hire an encroachment preventer, which will be a part-time contractor position. The encroachment preventer is a contractor whose role is to visit different job sites where public works activity is taking place, and to assist the third-party excavators by ensuring that they do not encroach upon the Company's cast iron mains. Public works activity has increased substantially in Rhode Island, warranting a need for this position.

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In Data Year 1, the amount of training is reduced by (\$76,782) as shown on Schedule

MAL-38, at Page 4, Line 4, Column (b) due to the number of employees that will need

training in Data Year 1 and Data Year 2. These programs are discussed more in detail in

the Joint Testimony of Company Witnesses Raymond J. Rosario, Jr., Alfred Amaral II,

and Ryan M. Constable.

Table 27
 Gas Operations Expense

Company	Test Year	Normalizing	Proforma	Rate Year
	Expense	Adjustments	Adjustments	Expense
Narragansett Gas	\$0	\$0	\$1,032,482	\$1,032,482

26. <u>Schedule MAL-39 – Customer Affordability Program Expenses</u>

# 10 Q. What does Schedule MAL-39 provide?

- 11 A. Schedule MAL-39 provides the costs associated with Customer Affordability Program.
- These costs are summarized in Table 26, below:

Table 28
 Customer Affordability Program Adjustments

	Test Year	Normalizing	Proforma	Rate Year
Company	Expense	Adjustments	Adjustments	Expense
Narragansett Electric	\$0	\$0	\$613,623	\$613,623
Narragansett Gas	\$0	\$0	\$292,714	\$292,714

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### 27. Schedule MAL-40 – Purchased Power/Purchased Gas

### 2 Q. What does Schedule MAL-40 provide?

- 3 A. Schedule MAL-40 provides a normalizing adjustment to remove the Company's cost of
- 4 purchased power and gas commodity as these are non-base distribution expenses
- 5 recovered through separate reconciling mechanisms.

7 **Table 29** 

## **Purchased Power/Purchased Gas Adjustments**

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$304,255,398	(304,255,398)	\$0	\$0
Narragansett Gas	\$136,269,302	(\$136,269,302)	\$0	\$0

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## E. Non-O&M Proforma Adjustments

## 11 Q. Are there proforma adjustments to non-O&M accounts?

- 12 A. Yes. Non-O&M related proforma adjustments relate to: (1) the amortization of
- regulatory deferrals; (2) amortization and depreciation; (3) municipal tax expense; (4)
- payroll tax expense; and (5) other taxes. Detailed calculations are provided on Schedules
- 15 MAL-4-ELEC and MAL-4-GAS through Schedule MAL-9.

16 17

- 1. <u>Schedule MAL-4-ELEC and Schedule MAL-4-GAS Amortization of Regulatory Deferrals</u>
- 19 Q. What do Schedule MAL-4-ELEC and Schedule MAL-4-GAS provide?

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A. Schedule MAL-4-ELEC and Schedule MAL-4-GAS provide the calculation of Rate Year amortization of regulatory deferrals. A summary of those schedules is provided in the table below.

Table 30

Amortization of Regulatory Deferrals Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$8,454	(\$8,454)	\$332,482	\$332,482
Narragansett Gas	\$705,953	\$1,309,738	(\$495,085)	\$1,520,606

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# Q. What categories of costs are included in the Test Year amortization of regulatory

#### deferrals?

For Narragansett Electric, the Test Year amortization of regulatory deferrals includes rate case expenses. For Narragansett Gas, the Test Year amortization of regulatory deferrals includes the costs of the former gas billing system, the Advantage system, which the PUC authorized the Company to continue to recover even though the Advantage system was replaced in 2012.

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## 15 Q. Please discuss the proforma adjustment for rate case expenses.

A. The Company has engaged outside consultants to assist in preparing and presenting its case in this proceeding. The estimated costs total \$997,445 for Narragansett Electric and \$631,817 for Narragansett Gas. The Company proposes to recover rate case expense amounts over three years. The resulting adjustment is \$332,482 for Narragansett Electric

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1		and \$210,606 for Narragansett Gas. The Company is requesting to recover the actual
2		expenses incurred and will update the expense amounts through the travel of the case for
3		that purpose.
4		
5	Q.	Please discuss the adjustment for the costs of the gas billing system conversion from
6		the Advantage to the CSS platform over an eight-year period.
7	A.	In 2012, the Company converted its Advantage billing system for Narragansett Gas to the
8		CSS platform; however the Company had not yet fully recovered the cost of the
9		Advantage system at the time of conversion. In Docket No. 4323, the PUC authorized
10		the Company to recover the remaining costs over the original useful life of that system.
11		The annual Test Year amortization of this system totals \$705,691 for Narragansett Gas,
12		which is removed from the Rate Year as the amortization will be completed prior to
13		beginning of the Rate Year on Schedule MAL-4-GAS on Line 1, Column (d). There
14		were no related costs in the Test Year for Narragansett Electric.
15		
16	Q.	Please discuss the Environmental Response Fund normalization adjustment for
17		Narragansett Gas.
18	A.	The Environmental Response Fund is designed to provide the Company recovery of its
19		reasonable and prudently incurred costs for evaluation, remediation, and clean-up of sites
20		associated with the Company's ownership and/or operation of manufactured gas plants
21		(MGP), manufactured gas storage facilities, and MGP-related off-site waste disposal
22		locations. In addition, the Environmental Response Fund includes recovery of

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1		environmental costs for removing and replacing mercury regulators and addressing meter
2		disposal issues. The Company records a debit to revenue on its books to offset the base
3		rate recovery of \$1,310,000 recovered annually from gas customers. A normalizing
4		adjustment was made to gas revenues on Line 50 of Schedule MAL-2-GAS. An
5		offsetting normalization adjustment is being made to Schedule MAL-4-GAS, Line 3,
6		Column (b) to reflect this as amortization expense in the cost of service. The Company is
7		not requesting any increase to the \$1,310,000 recovery level currently in base rates.
8		
9 10		2. <u>Schedules MAL-5-ELEC and MAL-5-GAS - Amortization of Intangibles and Schedules MAL-6-ELEC and MAL-6-GAS - Depreciation Expense</u>
11		
11 12	Q.	What do Schedules MAL-5-ELEC, MAL-5-GAS, MAL-6-ELEC, and MAL-6-GAS
	Q.	What do Schedules MAL-5-ELEC, MAL-5-GAS, MAL-6-ELEC, and MAL-6-GAS provide?
12	<b>Q.</b> A.	
12 13		provide?
<ul><li>12</li><li>13</li><li>14</li></ul>		<b>provide?</b> Schedules MAL-5-ELEC and MAL-5-GAS provide the calculation of Rate Year
<ul><li>12</li><li>13</li><li>14</li><li>15</li></ul>		provide? Schedules MAL-5-ELEC and MAL-5-GAS provide the calculation of Rate Year amortization of intangibles for Narragansett Electric and Narragansett Gas, respectively.
<ul><li>12</li><li>13</li><li>14</li><li>15</li><li>16</li></ul>		provide?  Schedules MAL-5-ELEC and MAL-5-GAS provide the calculation of Rate Year amortization of intangibles for Narragansett Electric and Narragansett Gas, respectively.  Schedules MAL-6-ELEC and MAL-6-GAS provide the calculation of Rate Year
12 13 14 15 16 17		provide?  Schedules MAL-5-ELEC and MAL-5-GAS provide the calculation of Rate Year amortization of intangibles for Narragansett Electric and Narragansett Gas, respectively.  Schedules MAL-6-ELEC and MAL-6-GAS provide the calculation of Rate Year depreciation expense for Narragansett Electric and Narragansett Gas, respectively. A

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Table 31
2 Amortization Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$62,962	(\$62,962)	\$0	\$0
Narragansett Gas	\$1,874,224	\$106,546	(\$1,554,586)	\$426,184

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Table 32

Depreciation Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$69,031,187	(\$19,869,812)	\$1,770,914	\$50,932,289
Narragansett Gas	\$33,311,851	(\$15,649)	\$7,919,753	\$41,215,955

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# Q. What is the approach used by the Company to determine Rate Year depreciation

8 expense?

The Company engaged Gannett Fleming Valuation and Rate Consultants, LLC to perform depreciation studies for Narragansett Electric and Narragansett Gas, as discussed in the pre-filed direct testimony of Company Witness Ned W. Allis. The proforma adjustment to depreciation expense reflects the application of depreciation rates determined in that depreciation study to the utility plant in service average balances for Narragansett Electric and Narragansett Gas for the Rate Year.

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I	Q.	Please summarize the calculation of the depreciation expense adjustment of
2		\$1,770,914 for Narragansett Electric.
3	A.	This adjustment is calculated on Page 2 of Schedule MAL-6-ELEC using average
4		depreciable plant for the Rate Year and the proposed composite depreciation rate based
5		on the depreciation study described above and the utility plant in service balances at the
6		end of the Test Year. The average depreciable plant for the Rate Year, \$1,601,564,340
7		on Line 11 is multiplied by the composite depreciation rate of 3.19558 percent on Line
8		13, which results in the calculated Rate Year depreciation expense of \$51,179,289, as
9		shown on line 16, the amount is then adjusted for an Unrecovered Reserve Adjustment of
10		(\$247,009) per the depreciation study, as shown on Line 17. The net Proforma Rate Year
11		Depreciation expense is \$50,932,289, as shown on Page 1, Line 1, and when compared to
12		the adjusted per books depreciation expense for the Test Year of \$49,161,375 on Line 5,
13		results in an adjustment of \$1,770,914 reflected on Line 6 and carried forward to
14		Schedule MAL-1-ELEC, Page 1, Line 13, Column (d).
15		
16	Q.	How did you determine the average depreciable plant for the Rate Year for
17		Narragansett Electric?
18	A.	That calculation is detailed on Pages 1 and 2 of Schedule MAL-6-ELEC. In summary,
19		total distribution utility plant at June 30, 2017 (Line 10) was used as the starting point.
20		First, the non-depreciable plant was removed as shown on Line 11 to arrive at
21		depreciable utility plant at June 30, 2017 as shown on Line 12. The capital investment
22		activity is rolled forward on Pages 1 and 2 through the end of the Rate Year and the end

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of the Data Years. Two months of capital investments were added to the amount on Line
12, as well as July 2017 streetlight retirement and general retirements estimated at the
Fiscal Year 2018 Electric ISR Plan approved level approved by the PUC ,were added to
arrive at depreciable utility plant at August 31, 2017 (Line 17). A separate adjustment is
being reflected in the calculation for significant sales of streetlight investment to several
municipalities in the State that took place prior to the end of the Test Year that had not
been retired from the books as of June 30, 2017. The average of the two month end
balances from June 30, 2017 to August 31, 2017, as shown on Line 19 was used for the
calculation of two months of depreciation expense, or \$8,603,666 as shown on Line 24
and the depreciation impact of (\$1,307) from July 2017 streetlight retirement as shown on
Line 25. These amounts along with projected retirements and cost of removal at the
Fiscal Year 2018 approved Electric ISR Plan levels were added to the Company's June
30, 2017 depreciation reserve to arrive at the August 31, 2017 depreciation reserve
balance. This same calculation was performed for the August 31, 2017 to August 31,
2018 twelve-month period, to arrive at balances for the beginning of the Rate Year
period, and for the Rate Year period ended August 31, 2019 as shown on Page 1 Lines 31
through Page 2 Line 9. The total Rate Year depreciation expense is calculated by
applying the proposed composite depreciation rate of 3.19558 percent to the Rate Year
average depreciable utility plant amount of \$1,601,564,340, as shown on Line 11.
How were the projected capital investments, retirements, and cost of removal
calculated?

Q.

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A. As previously mentioned, to maintain consistency with the existing ISR plans, for the Fiscal Years 2019 through 2022 periods, the level of ISR eligible capital additions previously approved by the PUC were reflected in the projected amounts on Page 5, Column (a) and Column (b) of Schedule MAL-11-ELEC. For the April 2018 through August 2019 period, the Company assumed the same level of annual ISR plan eligible capital investments as those approved for the Fiscal Year 2018 period. The Company expects that proposed capital investments for the Fiscal Years 2019 through 2022 periods will be more than those requested and approved for Fiscal Year 2018, and believes this assumption is conservative. The ISR plan portion of estimated plant investment is merely a proxy amount of capital investment that will eventually be trued up and reconciled to actual plant investment in a subsequent electric ISR reconciliation filing. To these ISR eligible amounts were added modest investment projections for general plant. General plant investments are ineligible for inclusion in the ISR plan and therefore must be added. Details of these capital investment projects are provided on Schedule MAL-11-ELEC, Page 5, Lines 8 through Line 10.

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For cost of removal projections, the Company maintained the same annual levels as those approved in the ISR filings. Projected retirements were based on the three-year average of actual retirements to actual plant additions experienced in Fiscal Years 2015 through 2017.

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1	Q.	Turning to Schedule MAL-5-ELEC, please describe the Normalizing and Proforma
2		adjustments being proposed for amortization expense.
3	A.	These adjustments are detailed on Schedule MAL-5-ELEC, Page 1. For Electric
4		operations, the Company has one intangible asset which is used for Renewable Energy
5		Growth Renewable Energy Growth Program. This intangible asset is recovered through
6		the Renewable Energy Growth Program filing outside of base rates. The normalizing
7		adjustment is to adjust the amortization to zero to remove the effect of the Renewable
8		Energy Growth Program asset.
9		
10	Q.	Please summarize the calculation of the depreciation adjustment of \$7,919,753
11		shown on Page 1 of Schedule MAL-6-GAS.
12	A.	This adjustment is calculated using the same methodology as described in the
13		Narragansett Electric cost of service as shown on Page 2 and using average depreciable
14		plant for the Rate Year and the proposed composite depreciation rate based on the
15		depreciation study described above based on utility plant in service balances at the end of
16		the Test Year, or 3.20 percent. Applying this proposed composite depreciation rate to
17		average Rate Year depreciable plant of \$1,284,029,676 results in Rate Year depreciation
18		expense of \$41,029,455 as shown on Line 16. To this amount is added the depreciation
19		of Unrecovered Reserve Adjustment \$186,500 per the depreciation study, as shown on
20		Line 17. The net proforma Rate Year depreciation expense is \$41,215,955, as shown on

Page 1, Line 1. When compared to the adjusted per books depreciation expense for the

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1	Test Year of \$33,296,002 on Line 4, results in an adjustment of \$7,919,753 reflected on
2	Line 5 and carried forward to Schedule MAL-1-GAS, Page 1, Line 13, Column (d).

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4 Q. Can you summarize the calculation of the amortization of (\$1,554,586) shown on
5 Page 1 of Schedule MAL-5-GAS?

These adjustments are detailed on Schedule MAL-5-GAS, Page 1. For Gas operations, except for the Smallworld Geographic Information System (GIS), all other intangibles were fully amortized at the end of the Test Year. The annual amortization of Smallworld GIS is \$426,184 which represents the proforma rate year amortization expense, as shown on Page 1, Column (e). This amortization is reflected as a proforma adjustment rather than an amortization embedded in test year amortization expense, due to an accounting adjustment was recorded to impair the Smallworld GIS asset because there is a plan to replace this asset before the end of its 25-year amortizable life. Under US GAAP accounting standards, assets planned to be retired before they are fully amortized must be impaired; however this conflicts with traditional rate-making which allows for recovery of assets that were purchased and used to serve utility customers. The 25-year useful life that was established at the inception of this investment is a somewhat long useful life to apply to information system technology. This investment was first approved by the PUC for recovery by the Company in Docket No. 3401. When compared to the adjusted per books amortization expense for the Test Year of \$1,980,770 on Page 1, Column (c), this results in an adjustment of (\$1,554,586) reflected on Page 1 Column (d) and carried forward to Schedule MAL-1-GAS, Page 1, Line 11, Column (d).

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#### 3. Schedule MAL-7-ELEC and MAL-7-GAS - Municipal Tax Expense

### 2 Q. What do Schedules MAL-7-ELEC and MAL-7-GAS provide?

A. Schedules MAL-7-ELEC and MAL-7-GAS provide the calculation of Rate Year property
 tax expense for Narragansett Electric and Narragansett Gas, respectively. A summary of
 those schedules is provided in the table below.

Table 33
 Property Tax Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$49,702,787	(\$20,023,313)	\$850,784	\$30,530,258
Narragansett Gas	\$22,091,730	(\$2,696)	\$4,780,420	\$26,869,455

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#### Q. What normalizing adjustments were made related to municipal tax expense?

The Test Year property tax expense was first adjusted to remove non-property tax related components to arrive at the adjusted Test-Year property tax expense. Those included the plant-related adjustment described below in the discussion of rate base. In addition, an adjustment was made to reclassify consultant costs that were incorrectly recorded to the property tax account.

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## Q. Has the Company adjusted the Test Year expense for municipal taxes?

17 A. Yes. In making its proforma adjustments, the Company has proposed an approach that reflects more up-to-date information than has been considered in prior cases by the PUC.

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1		Using a more up-to-date number will result in a more representative Rate Year expense
2		for property taxes.
3		
4	Q.	As of the time of this filing, when did the Company receive its most recent property
5		tax bills for Narragansett Electric and Narragansett Gas?
6	A.	As of the time of this filing, the latest property tax bills for Narragansett Electric and
7		Narragansett Gas were received for the 2017-2018 tax year ending June 30, 2018. The
8		tangible personal property tax bills are based on the annual reports filed by the Company
9		based on its original cost less statutory depreciation as of December 31, 2016.
10		
11	Q.	What are the various components of property tax expense issued by the
12		municipalities to the Company?
13	A.	Property tax bills are comprised of the following components:
14		• Tangible Personal Property Assessment: Based on the original cost of Company-
15		owned assets reported to the municipality annually on a document called the Annual
16		Return.
17		• Real Property Assessment: Based upon the full and fair market value of all real
18		estate established by the municipalities as of December 31st of each year. The fair
19		market value (or the assessment) becomes the basis for taxation.
20		• Mill Rate: All municipalities establish the mill rate, which represents the amount per
21		\$1,000 of the assessed value of property. This rate is used to calculate the amount of
22		property tax owed.

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1		• <b>Total Tax</b> : The calculation of total assessed value (personal property) multiplied by
2		the mill rate, and then divided by 1,000.
3		• The Company is also taxed by various water/sewer and fire districts.
4		
5	Q.	Please describe the typical process and timing for municipalities issuing property
6		tax bills in each year.
7	A.	In the first quarter of each calendar year, the Company produces an Annual Return for
8		submittal to each municipality in which the Company owns property. The Annual Return
9		reports the original equipment cost less statutory depreciation of assets owned by the
10		Company as of the end of the most recent calendar year. With some exceptions,
11		municipalities rely on the Annual Return to bill the Company for tangible personal
12		property taxes.
13		
14	Q.	Please describe the Company's proposal for establishing the level of property tax
15		expense in this proceeding.
16	A.	The Company is proposing to base the real property tax expense on the latest bills
17		received by the Company during the proceeding. For those municipalities that rely on the
18		Annual Return provided by the Company for assessing tangible personal property,
19		however, the Company is proposing to base tangible personal property tax expense on the
20		values provided by the Company on the Annual Return produced in the first quarter of
21		2017, which represents values as of December 31, 2016. The remaining components for
22		each municipality (i.e., real property, mill rate, and water/sewer/fire district) will be

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1		based on the corresponding amounts listed by each municipality on the latest bills
2		received during the proceeding.
3		
4	Q.	Why is the Company's proposed approach appropriate?
5	A.	That Company's proposed approach is appropriate because the values provided on the
6		Annual Return, in almost all cases, are identical to the values relied on by the
7		municipality in valuing tangible personal property.
8		
9	Q.	What information will the Company provide during this proceeding to support its
10		proposal?
11	A.	During this proceeding, the Company will provide: (i) updated Annual Returns provided
12		to each municipality in the first calendar quarter (Q1) of 2018 (for FY 2019); (ii) an
13		updated calculation of Rate Year property tax expense that will rely on the amount of real
14		property, mill rate, water/sewer and fire district, as reported on the latest actual bills, as
15		well as the calculation of the tangible personal property as reported on the calendar Q1
16		2018 Annual Return, multiplied by the mill rate per the latest bills received in 2018 to
17		determine the level of tangible personal property tax expense.
18		
19		This represents a proforma method for determining a representative level of property tax
20		expense in the Rate Year, since, as described above, the tangible personal property tax
21		expense for FY 2019 bills (which will be received by the mid-point of the Rate Year in

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1 2019) will be based on the Annual Returns provided to each municipality in calendar Q1 2018.

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## 4. Schedule MAL-8 – Payroll Tax Expense

# 5 Q. What does Schedule MAL-8 provide?

6 A. Schedule MAL-8 provides the calculation of Rate Year payroll tax expense. A summary

7 of that schedule is provided in the table below.

8

# Table 34 Payroll Tax Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$8,148,712	(\$4,420,053)	\$470,837	\$4,199,496
Narragansett Gas	(\$1,294,241)	\$3,763,829	\$227,055	\$2,696,643

10

## 11 Q. What normalizing adjustments were made to payroll tax expense?

12 A. For Narragansett Electric, payroll taxes were adjusted to remove IFA, I&M program
13 costs recovered through the ISR mechanism, and storm events. In addition, Electric
14 federal employment taxes of \$3,763,829 were reclassified to Narragansett Gas.

15

# 16 Q. Please discuss the proforma adjustment for payroll tax expense.

17 A. The adjustment to payroll tax expense is similar to the adjustments for group life and
18 employee thrift-company match, Schedules MAL-14 and MAL-15, respectively. Rate
19 Year O&M salaries and wages for the Company, the Service Company, and other

affiliate company employees are, in aggregate, 16.07 percent higher for Narragansett Electric and 12.18 percent higher for Narragansett Gas than the comparable Test Year amounts. Therefore, payroll tax expense charged to O&M was first increased by 16.07 percent for Narragansett Electric and 12.18 percent for Narragansett Gas. Then, because certain taxes such as social security, federal unemployment, and state unemployment taxes are subject to wage caps, the payroll tax increase is broken out into individual tax components. A separate analysis was performed to project each employee's salary and wages at the end of the Rate Year as well as the end of the Data Years to estimate what percent of payroll is subject to each tax increase. Those recalculated proforma adjustments amounted to increases of \$470,837 for Narragansett Electric and \$227,055 for Narragansett Gas in the Rate Year.

### 5. Schedule MAL-9 – Other Taxes and Gross Receipts Tax Expense

## Q. What does Schedule MAL-9 provide?

A. Schedule MAL-9 provides the calculation of Rate Year other tax expense and gross receipts tax expense. A summary of that schedule is provided in the table below.

Table 35
Other Taxes and Gross Receipts Tax Expense Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$33,002,948	\$(32,568,650)	\$20,108	\$454,406
Narragansett Gas	\$11,383,774	\$(11,166,309)	\$10,069	\$227,533

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### 1 Q. What adjustments were made related to other tax expense and gross receipts tax 2 expense? 3 A. Normalizing adjustments of \$(32,568,650) for Narragansett Electric and \$(11,166,309) 4 for Narragansett Gas were made to remove all gross receipts tax. Schedule MAL-10-ELEC and Schedule MAL-10-GAS Income 5 6. 6 Tax Expense 7 Q. What do Schedule MAL-10-ELEC and Schedule MAL-10-GAS provide? 8 A. Schedule MAL-10-ELEC and Schedule MAL-10-GAS provide the calculation of Rate 9 Year income tax expense for Narragansett Electric and Narragansett Gas. A summary of 10 those schedules is provided in the table below. 11 12 Table 36

Company	Rate Year Expense	Revenue Increase Effect	Rate Year Expense with Revenue Increase
Narragansett Electric	\$7,846,727	\$14,264,907	\$22,111,635
Narragansett Gas	\$11,091,251	\$10,391,980	\$21,483,231

**Income Tax Expense Summary** 

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#### 15 Q. What is the normalized income tax calculation presented on Schedule MAL-10?

The income tax calculation involved six steps. First, pre-tax operating income before interest expense was calculated for the Rate Year by deducting adjusted Rate Year expenses from adjusted Rate Year revenues. Pre-tax operating income before interest expense under current rates totals \$37,692,691 for Narragansett Electric and \$51,113,749

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	for Narragansett Gas. Second, synchronized interest expense was calculated by applying
	the Company's weighted average cost of debt to Rate Year average rate base. That
	resulted in synchronized interest expense of \$17,288,088 for Narragansett Electric and
	\$19,490,373 for Narragansett Gas. Third, synchronized interest expense was deducted
	from pre-tax operating income before interest expense to calculate taxable income of
	\$20,404,603 for Narragansett Electric and \$31,623,376 for Narragansett Gas. Fourth,
	normalized federal income tax expense was calculated by multiplying taxable income by
	the statutory 35.00 percent federal income tax rate.
	Fifth, for Narragansett Electric only, the annual funding of the Company's unfunded
	deferred taxes as provided in Docket No. 4065 are added to the calculated federal income
	tax. Lastly, amortization of Equity AFUDC is flowed through to income tax expense in
	the amounts of \$44,446 for Narragansett Electric and \$23,070 for Narragansett Gas to
	arrive at the total Rate Year income tax expense amount of \$7,846,727 and \$11,091,251
	as shown on Schedule MAL-10-ELEC, Page 1, Column (a) and Schedule MAL-10-GAS,
	Page 1, Column (a), respectively. Identical calculations were performed to arrive at
	income tax expense in the Data Years, as shown on Pages 2 and 3 of Schedule MAL-10-
	ELEC and Schedule MAL-10-GAS.
Q.	How is the proposed revenue increase treated for income tax purposes?
A.	Income taxes are also calculated for the proposed revenue increase for both Narragansett
	Electric and Narragansett Gas. The additional income taxes for the proposed revenue

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1		increase total \$14,264,907 for Narragansett Electric and \$10,391,980 for Narragansett
2		Gas.
3		
4		F. Expense Proforma Adjustments Summary
5	Q.	Please summarize the impact of the proforma expense adjustments proposed by the
6		Company.
7	A.	Total proforma expense adjustments increased adjusted Test Year operating expenses in
8		the Rate Year by \$14,560,674 for Narragansett Electric and \$12,187,620 for Narragansett
9		Gas, as shown on Schedule MAL-1-ELEC and Schedule MAL-1-GAS respectively.
10		Proforma expense adjustments in Data Year 1 total \$6,608,159 for Narragansett Electric
11		and \$9,399,227 for Narragansett Gas. Proforma expense adjustments in Data Year 2 total
12		\$5,547,215 for Narragansett Electric and \$8,819,255 for Narragansett Gas.
13		
13		
14	Q.	What is the total Rate Year operating expense in the revenue requirement?
15	A.	The total Rate Year operating expense included in the Company's Rate Year revenue
16		requirement \$241,499,739 for Narragansett Electric and \$163,409,842 for Narragansett
17		Gas, which is shown on Schedule MAL-1-ELEC and Schedule MAL-1-GAS.
18		
19		G. Rate Base and Return on Rate Base
20	Q.	What additional information did you use to compute the revenue increase?

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1 A. In addition to the Rate Year operating expenses, the computation of the revenue 2 deficiency required analyses of rate base, return on rate base, and income tax expense. 3 4 1. Schedules MAL-11-ELEC and MAL-11-GAS – Rate Base 5 Q. Please discuss how the rate base was computed. 6 A. The Company's rate base calculation is provided in Schedules MAL-11-ELEC and 7 MAL-11-GAS for Narragansett Electric and Narragansett Gas, respectively. As shown 8 on those schedules, the Rate Year rate base is \$758,249,458 for Narragansett Electric and 9 \$773,427,484 for Narragansett Gas. In the Data Years, rate base is \$786,010,359 and 10 \$825,211,839, respectively, for Narragansett Electric and \$840,290,685 and 11 \$904,024,414, respectively, for Narragansett Gas. The Company's rate base in this 12 proceeding is computed using a five-quarter average of rate base components as of the 13 end of the Rate Year and Data Years. The rate base amount includes total plant, 14 materials and supplies, prepayments, unamortized loss on reacquired debt, unamortized 15 debt issuance costs, and a cash working capital allowance. 16 Deductions from rate base include property accumulated amortization and depreciation, 17 accumulated deferred income tax liability, and customer deposits. 18 19 Table 37 20 **Rate Base Adjustments Test Year** Normalizing Proforma Rate Year Company **Expense** Adjustments Adjustments Expense

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Narragansett Electric	\$672,076,463	\$0	\$86,172,995	\$758,249,458
Narragansett Gas	\$631,485,620	\$1,008,605	\$140,933,260	\$773,427,484

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# Q. Please discuss the computation of total utility plant and other assets that are

#### included in rate base.

Total utility plant includes the June 30, 2017 balances of utility plant in service, plus utility plant forecasted to be placed into service in the period after the Test Year and through the Rate Year, as well as the subsequent Data Years, each at the five-quarter average ending balance. For Narragansett Gas, total utility plant includes Construction Work In Progress (CWIP). The Company has excluded Goodwill and AROs from rate base. In addition, Gas utility plant was increased for adjustments the Company identified in the preparation of this rate case filing, as discussed below.

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# Q. Can you please explain the normalizing adjustment made to Narragansett Gas utility Plant as shown on Schedule MAL-11-GAS at Page 2?

14 A. Yes. At March 31, 2017, the Company made an adjustment to its reduce its plant ledger
15 for the amount of book value remaining on Narragansett Gas' Geographic Information
16 System (GIS) known as Smallworld, as it was deemed to be impaired under US GAAP
17 accounting, because it is scheduled to be replaced before the end of its 25-year useful life.
18 However, Narragansett Gas has not fully recovered the total associated amortization
19 expense related to Smallworld, which was first approved for recovery as part of Docket
20 No. 3401. Therefore, the Company has increased the June 30, 2017 ending plant and

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1		accumulated depreciation balances for an amount equal to the remaining net book value
2		of Smallworld to be collected over the remainder of its useful life as originally
3		determined. The associated adjustment to amortization of intangibles is shown on
4		Schedule MAL-5-GAS. These adjustments are necessary to continue the recovery of the
5		Smallworld GIS investment that was made on behalf of customers.
6		
7	Q.	What was the adjustment to eliminate the amortization of deferred AROs?
8	A.	Accounting standards require the Company to accrue Asset Retirement Obligations
9		(ARO) liabilities for anticipated future costs associated with the retirement of certain
10		assets. The Company, however, does not include those costs in rates when accrued, but
11		rather reflects those costs as a component of the cost of removal when incurred.
12		Therefore, AROs and their associated amortization are eliminated from the revenue
13		requirements, as shown on Schedules MAL-6-ELEC and MAL-6-GAS.
14		
15	Q.	Would you summarize the proforma adjustment made to Test Year-end plant in
16		service?
17	A.	As shown on Schedule MAL-11-ELEC (Page 6 and 7) and MAL-11-GAS (Page 3 and 4),
18		Test Year-end plant in service is adjusted for projected capital additions from July 1,
19		2017 through August 31, 2019, as shown on Schedule MAL-11-ELEC at Page 6 and
20		Schedule MAL-11-GAS at Page 3. Likewise, projected capital additions through August
21		31, 2020 and August 31, 2021 are shown on Schedule MAL-11-ELEC at Page 7 and
22		Schedule MAL-11-GAS at Page 4.

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1		As previously discussed the projected capital additions for this proforma period are the
2		same as the capital addition amounts approved in the Company's FY 2018 Electric and
3		Gas ISR Plan filings. For the September 1, 2019 through August 31, 2020 Data Year, as
4		well as the September 1, 2020 through August 31, 2021 Data Year, the same approved
5		level of FY 2018 ISR capital additions had been used as a proxy. Projected retirements
6		are also included in the calculation of the Rate Year plant in service amounts. The five-
7		quarter average plant in service amount for the Rate Year totals \$758,249,458 for
8		Narragansett Electric and \$773,427,484 for Narragansett Gas, as shown on page 1 of
9		Schedules MAL-11-ELEC and MAL-11-GAS, respectively.
10		
11	Q.	Please discuss cash working capital.
12	A.	The cash working capital allowance of \$19,101,895 for Narragansett Electric and
13		\$7,397,337 for Narragansett Gas was developed through a lead-lag study that is discussed
14		in more detail in Section IV of this testimony.
15		
16	Q.	Please discuss the accumulated deferred income tax liability balances.
17	A.	Accumulated deferred income taxes (ADIT) represent timing differences that arise
18		between when items are recognized for financial accounting purposes and when those
19		items are recognized for tax purposes. Because the Company calculates income tax
20		expenses for ratemaking purposes using financial accounting taxable income and
21		statutory tax rates, the Company recognizes those "book/tax" timing differences in rate

base. The primary contributor to those timing differences is depreciation expense, which

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generally is recognized on an accelerated basis for tax purposes as compared to its recognition for financial accounting purposes, resulting in an accumulated ADIT liability that reduces rate base.

A.

### Q. What normalizing adjustments were made to ADIT?

ADIT was adjusted to account for net operating loss tax assets (NOLs) at the end of the Test Year that were accounted for in the adjustments to ADIT. Those NOLs reflect accumulated deductions taken for tax purposes that exceeded taxable income. Because the Company was not able to recognize the full value of those tax deductions in the year in which they were recorded for tax purposes, the ADIT balance is reduced to reflect the Company's NOL balances.

## Q. What proforma adjustments were made to ADIT?

A. The Rate Year ADIT calculation is shown on Schedule MAL-11-ELEC and MAL-11-GAS, both at Pages 11-12. As shown on these pages, the Test Year-end balance was adjusted for projected changes for the period July 1, 2017 through August 31, 2019, as well as the for the twelve-month periods ending August 31, 2020 and August 31, 2021 (the Data Years). The changes in the ADIT balance reflect the tax impact on that period's book and tax depreciation amounts. The tax depreciation includes projected tax depreciation on June 30, 2017 embedded assets plus the estimated tax depreciation on projected capital additions, equal to the Fiscal Year 2018 ISR approved capital additions for the projected period as previously discussed. Book depreciation amounts were

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1		calculated on Schedule MAL-6-ELEC and Schedule MAL-6-GAS, on Pages 1-2. The
2		difference in these book and tax depreciation amounts times the federal income tax rate
3		of 35 percent generates the projected deferred tax adjustments for the projected period.
4		This calculation is shown on Pages 11-12. The five-quarter average ADIT amount for
5		the Rate Year is carried forward to Page 1.
6		
7	Q.	Were any adjustments made to the other components of rate base?
8	A.	Schedule MAL-11-ELEC at Page 10 and Schedule MAL-11-GAS at Page 8 summarize
9		the derivation of Rate Year amounts for all other rate base components with the
10		exception of cash working capital. Included on that page is the derivation of the Rate
11		Year balances for Contributions in Aid of Construction (CIAC), Materials and Supplies,
12		Prepayments, Loss on Reacquired Debt, Unamortized Debt Issuance costs and Customer
13		Deposits. The five-quarter averages for these rate base components for the Rate Year
14		and Data Years are carried forward to Page 1.
15		
16	Q.	Please summarize the rate base calculation.
17	A.	The table below provides a summary of Rate Year rate base for Narragansett Electric and
18		Narragansett Gas.
19		
20		

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Table 38
Rate Base Summary

Company	Test Year Expense	Normalizing Adjustments	Proforma Adjustments	Rate Year Expense
Narragansett Electric	\$672,076,463		\$86,172,995	\$758,249,458
Narragansett Gas	\$631,485,620	\$1,008,605	\$140,933,260	\$773,427,484

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Q.

A.

## 2. Schedule MAL-41 and Schedule MAL-42 - Cash Working Capital

# What do Schedule MAL-41 and Schedule MAL-42 provide?

Schedule MAL-41 and Schedule MAL-42 provide the cash working capital allowance included in rate base for Narragansett Electric and Narragansett Gas, respectively, as well as the results of the lead-lag studies upon which the cash working capital allowances are based. The Electric and Gas lead-lag studies and the derivation of the cash working capital allowances are described in greater detail in Section IV of this testimony.

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#### 3. Return on Rate Base

## Q. Did you compute the return on rate base for revenue at current rates?

Yes. The return on rate base at current rates is 3.49 percent for Narragansett Electric and 5.17 percent for Narragansett Gas, as shown on Schedule MAL-1-ELEC and Schedule MAL-1-GAS, both on Page 1. Return on rate base equals after-tax net operating income divided by the Rate Base.

18

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1	Q.	What is the overall rate of return that the Company is requesting to include in its
2		cost of service?
3	A.	As shown on Schedule MAL-1-ELEC and MAL-1-GAS, both on Page 1, the proposed
4		overall rate of return is 7.43 percent for Narragansett Electric and 7.67 percent for
5		Narragansett Gas. Those returns are based upon the proposed cost of capital components
6		and capital structure presented by Company Witness Robert E. Hevert.
7		
8	Q.	How did you compute the needed revenue increase?
9	A.	The first step in computing the needed revenue increase, or revenue deficiency, is to
10		compute the difference between the return on rate base for revenue at current rates, and
11		the Company's cost of capital. The rate of return deficiency is 3.49 percent for
12		Narragansett Electric and 2.5 percent for Narragansett Gas, as shown on Page 1 of
13		Schedule MAL-1-ELEC and Schedule MAL-1-GAS. That difference is multiplied by the
14		rate base to compute the net operating income (NOI) deficiency.
15		
16		The revenue increase required to produce the additional NOI of \$26,491,971 for
17		Narragansett Electric and \$19,299,391for Narragansett Gas is computed by grossing up
18		the NOI deficiency to reflect income taxes and delivery-related uncollectible accounts
19		expense on the additional revenue. The gross-up factors of 1.558771 for Narragansett
20		Electric and 1.5711658 for Narragansett Gas are computed to reflect an allowance for
21		uncollectible accounts expense on the revenue deficiency, as well as income taxes. When
22		multiplied by the NOI deficiency, the revenue deficiency, or required revenue increase, is

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1		computed to be \$41,294,907 for Narragansett Electric and \$30,322,543 for Narragansett
2		Gas.
3		
4	IV.	Cash Working Capital
5	Q.	What is a "cash working capital" requirement?
6	A.	A cash working capital requirement is the amount of funds the Company needs to keep
7		on hand to finance day-to-day operations.
8		
9	Q.	What is a lead-lag study?
10	A.	A lead-lag study measures the funds needed due to net timing differences between when
11		a utility expends cash for the costs required to provide utility service and when it receives
12		payment from customers for that service. Specifically, a lead-lag study measures
13		"revenue lags," which are the number of days between when a utility provides service
14		and when its customers pay for that service; and "expense leads," which are the number
15		of days between when a utility incurs expenses and when it must pay for those expenses.
16		The net of the revenue lags and expense leads, when multiplied by the Company's Rate
17		Year expenses for Narragansett Electric and Narragansett Gas, results in the cash
18		working capital requirement.
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1	Q.	How should the results of the cash working capital analysis be treated for
2		ratemaking purposes?
3	A.	The cash working capital requirement should be included as part of the Company's rate
4		base for ratemaking purposes.
5		
6	Q.	Did the Company conduct a lead/lag study for this proceeding?
7	A.	Yes. A summary of the lead-lag study results for Narragansett Electric is presented in
8		Schedule MAL-41. A summary of the lead-lag study results for Narragansett Gas is
9		presented in Schedule MAL-42. As shown in those schedules, the total working capital
10		requirement is \$19,101,895 for Narragansett Electric and \$7,397,337 for Narragansett
11		Gas.
12		
13	Q.	Please provide an overview of the approach to determining the Company's cash
14		working capital requirement.
15	A.	The Company analyzed the significant cash inflows and outflows of Narragansett Electric
16		and Narragansett Gas to develop lead-lag factors for the Company's overall revenues and
17		expenses and to derive the cash working capital allowance. The lead-lag factors are
18		equal to the calculated leads and lags divided by the number of days in the year to derive
19		a percentage that can be applied to Test Year expenses.
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# THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID RIPUC Docket No. 4770

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1	Q.	For what period was the lead-lag study performed?
2	A.	The lead-lag study analyzed the Company's cash transactions and invoices for the twelve
3		months ended June 30, 2017, which is the Company's Test Year. The calculated revenue
4		lag and expense leads were then applied to Rate Year expenses.
5		
6	Q.	What are the various leads and lags that should be considered in a cash working
7		capital analysis?
8	A.	Two broad categories of leads and lags should be considered: (1) lag times associated
9		with the collection of revenues owed to a company (i.e., revenue lags); and (2) lead times
10		associated with the payments for goods and services received by the Company (i.e.,
11		expense leads).
12		
13	Q.	What is a revenue lag?
14	A.	A revenue lag refers to the elapsed time between the delivery of a company's service
15		(e.g., gas distribution) and its ability to use the funds received as payment for the delivery
16		of the service.
17		
18	Q.	What is an expense lead?
19	A.	The expense lead refers to the elapsed time from when a good or service is provided to a
20		company to the point in time when the company pays for the good or service and the
21		funds are no longer available to the company.

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2	Q.	How was the revenue lag determined?
3	A.	The distribution revenue lag measured the number of days from the date service was
4		rendered by the Company until the date payment was received from customers and such
5		funds were deposited and available to the Company. In the lead-lag study, the revenue
6		lag was divided into three components: (1) service lag; (2) billing lag; and (3) collections
7		lag. An explanation of each component of the revenue lag follows.
8		
9	Q.	What is meant by service lag?
10	A.	The service lag refers to the number of days from the mid-point of the service period to
11		the meter reading date for that service period. Using the mid-point methodology, the
12		average lag associated with the provisioning of service by the Company was 15.21 days
13		(365 days in the year divided by 12 months divided by 2).
14		
15	Q.	What is meant by billing lag?
16	A.	Billing lag refers to the average number of days from the date on which the meter was
17		read until the customer was billed. The billing lag was determined to be 1.39 days for
18		both Narragansett Electric and Narragansett Gas.
19		
20	Q.	What is meant by collections lag?
21	A.	The collections lag refers to the average amount of time from the date when the customer

received a bill to the date that the Company received payment from its customers.

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1	Q.	How did the Company calculate the collections lag for purposes of this proceeding?
2	A.	For Narragansett Electric, the lead-lag study calculated the collections lag by dividing the
3		Company's monthly accounts receivable balance by the monthly sales of \$921,833,379,
4		and multiplying that product by the number of days in each month to determine the
5		monthly days of sale in accounts receivable. The monthly days of sale in accounts
6		receivable was then summed and divided by 12 to develop a monthly average. The result
7		of that calculation was a collection lag of 45.29 days for Narragansett Electric. For
8		Narragansett Gas, the lead-lag study calculated the collections lag by dividing the
9		Company's monthly accounts receivable balance by the monthly sales of gas, and
10		multiplying that product by the number of days in each month to determine the monthly
11		days of sale in accounts receivable. The monthly days of sale in accounts receivable was
12		then summed and divided by 12 to develop a monthly average. The result of that
13		calculation was a collection lag of 32.54 days for Narragansett Gas.
14		
15	Q.	Please summarize the calculation of distribution revenue lag days.
16	A.	The calculation of the overall distribution revenue lag, by lag component, is summarized

17

in the following table.

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Table 39
2 Revenue Lag by Component

Component	Lag Days – Narragansett Electric	Lag Days – Narragansett Gas
Service Lag	15.21	15.21
Billing Lag	1.39	1.39
Collections Lag	45.29	32.54
Total Lag	61.89	49.14
Revenue Lag – Annual Percent (Total Lag / Days in the Test Year)	16.91%	13.46%

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#### **B.** Expense Leads

# 5 Q. What were the expense leads considered in the lead-lag analysis?

A. Lead times associated with the following broad expense categories were considered in the lead-lag study: (a) O&M expenses; (b) municipal taxes; and (c) payroll taxes.

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# 9 Q. What expense items are included in O&M expenses?

A. O&M expenses are the costs to the Company of providing service to customers and administering the Company. The expenses analyzed in the lead-lag study include: (1) payroll; (2) Service Company charges; and (3) other O&M expenses, which includes costs paid to outside vendors and other parties for the purchase of products and services.

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2		expenses.		
3	A.	Expense leads were calculated by determining the midpoint of the service period for each		
4		type of expense analyzed and then subtracting those midpoints from the dates on which		
5		the expenses were paid by the Company.		
6				
7	Q.	Please summarize the results of the lead-lag study for Narragansett Electric as		
8		presented on Schedule MAL-41 and for Narragansett Gas as presented on Schedule		
9		MAL-42.		
10	A.	The summary page for those schedules shows the net percent lead or lag, for each of the		
11		expense components listed. For example, the O&M expense component indicates a net		
12		lag of 11.95 percent for Narragansett Electric and 9.01 percent for Narragansett Gas. The		
13		net lag is calculated for each expense component by subtracting that expense's payment		
14		lead or lag from the revenue lag. A net lag indicates that, on average, the Company pays		
15		for O&M expenses in the provision of service to customers before the customers pay		
16		their bills to the Company. The average lag for the payment of O&M expenses is 19.48		
17		days or (4.96) percent on an annual basis (19.48 days/366 days) for Narragansett Electric		
18		and 16.19 days or (4.46) percent on an annual basis (16.19 days/366 days) for		
19		Narragansett Gas. The difference between the revenue collection lag of 16.91 percent		
20		and the O&M payment lag of (4.96) percent is a net lag of 11.95 percent for Narragansett		
21		Electric. The difference between the revenue collection lag of 13.46 percent and the		
22		O&M payment lag of (4.46) percent is a net lag of 9.00 percent for Narragansett Gas.		

Provide an explanation of the expense leads associated with the Company's

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Q.

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The percent is then multiplied by the adjusted Test Year O&M expense, resulting in a
cash working capital rate base allowance of \$16,235,717 for O&M expenses for the Rate
Year for Narragansett Electric and \$7,181,648 for Narragansett Gas. That same process
is conducted for each of the expense items listed in the summary on Schedules MAL-41-
ELEC and MAL-42-GAS resulting in a total cash working capital rate base allowance of
\$19,101,896 for Narragansett Electric and \$7,397,337 for Narragansett Gas, respectively

8 V. Energy Innovation Hub

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- Q. Please provide a summary of the Energy Innovation Hub as it relates to the revenue
   requirements and the Company's cost recovery proposals.
- 11 A. As described in the testimony of the Company Witness Isberg, the Company is planning 12 to continue the operation of the Energy Innovation Hub to engage the community and 13 expand customer education and outreach, and to enrich customers' understandings of 14 energy and the options available to them to manage their energy use. The space and its 15 exhibits showcase: (a) energy solutions accessible to all customers; (b) innovative 16 advancements for system reliability; and (c) a vision of a sustainable energy future. The 17 Company proposes to recover the revenue requirement for the Energy Innovation Hub in 18 base rates. Schedule MAL-35 provides the Energy Innovation Hub costs in the Rate 19 Year, Data Year 1, and Data Year 2 for inclusion in base rates. The amounts included in 20 Schedule MAL-35 represent 50 percent of the total costs for the Energy Innovation Hub. 21 The remaining 50 percent of the total costs will be recovered through the Company's

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1		Energy Efficiency Program Plan for 2018 filed with the PUC on November 1, 2017 in
2		Docket No. 4755.
3		
4	VI.	Electric and Gas Operations Incremental Staffing
5	Q.	Please provide a summary of the electric and gas incremental workforce staffing
6		proposal as it relates to the revenue requirements and the Company's cost recovery
7		proposals.
8	A.	As described in the testimony of the Company Witnesses Raymond J. Rosario, Jr. and
9		Ryan M. Constable for Narragansett Electric and Company Witness Alfred Amaral III for
10		Narragansett Gas, the Company is planning to add new electrical and gas worker
11		positions over and above the Company's current staffing complement, in the Rate Year
12		and during the Data Years, to address system workforce requirements. The costs of the
13		new electrical and gas worker positions are not fully reflected in the period July 1, 2016
14		through June 30, 2017 (the Test Year). In addition, the Company is proposing to increase
15		Test Year costs for additional crane operator licenses for 30 employees pursuant to
16		OSHA regulations, and the lease of three trouble trucks to improve truck availability and
17		response times in Rhode Island. Schedule MAL-37 provides illustrative revenue
18		requirements for the O&M expenses for Narragansett Electric. Schedule MAL-38
19		provides illustrative revenue requirements for the O&M expenses for Narragansett Gas.
20		

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### VII. Gas Business Enablement

2	Q.	Please provide a summary of the Gas Business Enablement Program as it relates to		
3		the revenue requirements and the Company's cost recovery proposals.		
4	A.	As described in the Joint Pre-filed Direct Testimony of Company Witnesses Anthony H.		
5		Johnston and Christopher J. Connolly, National Grid's Gas Business Enablement		
6		Program is a multi-year, enterprise-wide, gas-business program that will establish three,		
7		inter-related, core operating capabilities (Work Management, Asset Management, and		
8		Customer Enablement) necessary to support National Grid's U.S. gas distribution		
9		business. Gas Business Enablement investments will be recorded on the books of the		
10		Service Company. The program will be implemented over a multi-year period, with		
11		capital investments being placed into service at various points in time over the next few		
12		years, so the costs for Narragansett Gas and Narragansett Electric will also be incurred at		
13		various points in time over the next few years.		
14				
15		Because the Gas Business Enablement Program is a shared investment, only a portion of		
16		the total Service Company capital costs would be allocated to Narragansett Gas and		
17		Narragansett Electric in the form of rent expense as part of the overall Information		
18		Services Service Company rent expense. The Service Company will charge the		
19		benefitting companies, including Narragansett Electric and Narragansett Gas, rent		
20		expense consisting of the return of and on the Gas Business Enablement investments at		
21		the Service Company's weighted average cost of capital, utilizing the operating		
22		companies' allowed returns on equity. Recovery of Service Company capital costs for		

		•			
2		anticipated in-service dates of those investments. The total costs for Gas Business			
3		Enablement attributable to Narragansett Gas and Narragansett Electric are \$10.2 million			
4		in operating expense and \$33.8 million in Service Company capital costs allocated to			
5		Narragansett Gas and Narragansett Electric as rent expense. <sup>3</sup> Narragansett Gas's portion			
6		of the annual rent expense attributable to the Gas Business Enablement Program			
7		investment is \$2.4 million, \$2.8 million, and \$3.2 in the Rate Year and the two			
8		subsequent Data Years, respectively, as shown on Schedule MAL-36, Page 5.			
9		Narragansett Electric's portion of the annual rent expense attributable to the Gas Business			
10		Enablement Program investment is \$619,818 in the Rate Year, and \$611,224 and			
11		\$557,442 in Data Year 1 and Data Year 2, respectively, as shown on Schedule MAL-36,			
12		Page 11.			
13					
14	Q.	How does the Company propose to recover the expenses associated with Gas			
15		<b>Business Enablement Program implementation?</b>			
16	A.	As part of this proceeding, the Company is requesting the PUC to approve the creation of			
17		a regulatory asset for the deferral of Gas Business Enablement Program costs. For			
18		operating expenses incurred prior to the beginning of the Rate Year (i.e., September 1,			

Gas Business Enablement investments in the form of rent expense is based on the

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2018), the Company is proposing to defer those expenses and amortize them over a ten-

year period based on the projected deferral balance at August 31, 2018. Cumulative

This includes the depreciation of \$25 million and return of \$8.7 million over the full life of the assets (through FY2033).

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	operating expenses incurred by the Company for Gas Business Enablement through the
	end of the Test Year (i.e., June 30, 2017) amounted to \$1.5 million. The Company is also
	proposing to defer all post-Test Year Gas Business Enablement one-time operating costs
	on the Company's books to be amortized over a ten-year period, with return. The
	resulting annual amortization of \$1,016,617 would be recoverable in the Company's cost
	of service over the ten-year period commencing September 1, 2018. These amounts are
	shown on Schedule MAL-36, Page 6.
	For Gas Business Enablement expenses forecasted to be incurred during the Rate Year,
	the Company will recover rent expense consisting of the ten-year amortization amount
	with return in the total amount of \$28.7 million at the Rate Year projected levels based on
	the estimated dates those investments are placed in-service. Operating expenses incurred
	during the Rate Year would be recovered over a ten-year period, which is the useful life
	of the Gas Business Enablement capital investments. Incremental run-the-business costs
	would be recovered at the Rate Year projected levels net of incremental savings.
Q.	How has the Company reflected the costs for Gas Business Enablement in the
	revenue requirements for Narragansett Gas and Narragansett Electric?
A.	As shown on Schedule MAL-36, Page 6, the Company's share of O&M expenses is
	\$10.2 million for Narragansett Gas. This amount has been included as an expense as
	shown on Page 6 of that schedule. The annual amortization of Gas Business Enablement
	O&M costs, \$1,016,617, has been included in the cost of service for Narragansett Electric

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as shown on Page 6 of Schedule MAL-36. As part of this proceeding, the Company is requesting the PUC to approve the creation of a regulatory asset for the amortization of the Gas Business Enablement Program costs. Specifically, the Company is requesting the PUC authorize a regulatory asset for the deferral of "one-time" incremental O&M costs, including all O&M spent to date, to be recovered over ten years which is the useful life of the capital assets, commencing September 1, 2018.

The following proforma adjustments are included in the cost of service related to Gas

Business Enablement: for Narragansett Electric, \$619,618 in the Rate Year, \$611,424 in

Data Year 1, and \$557,442 in Data Year 2; for Narragansett Gas, \$4,133,125 in the Rate

Year, \$4,632,523 in Data Year 1, and \$4,815,707 in Data Year 2.

A.

#### 13 VIII. Customer Affordability Program

#### 14 Q. Please provide a summary of the Customer Affordability Program.

As described in the testimony of the Company Witness Isberg, the Company is planning to invest in new programs and services for income-eligible customers, and to increase its investment in its current income-eligible customer offerings, in order to better support these customers' ability to manage their utility usage and pay their utility bills. The new programs and services include expanded customer outreach and education, the addition of consumer advocates, a home energy monitoring demonstration project, investment in tools in the Company's Customer Contact Center, and extended payment center options. Schedule MAL-39 provides the costs of each of these proposed programs or services

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1		except for the additional consumer advocates which are included in the labor costs,			
2		Schedule MAL-12.			
3					
4	IX.	Storm Cost Recovery Proposal			
5	Q.	You mentioned earlier that Narragansett Electric was proposing to continue the			
6		current level of Storm Fund contributions in base distribution rates. Please			
7		describe the Company's Storm Fund and its current annual funding level.			
8	A.	Narragansett Electric currently employs a Storm Fund designed to levelize customer rate			
9		impacts of major storm events such as Hurricane Sandy, which heavily damaged			
10		Narragansett Electric's distribution system in October 2012 during the pendency of the			
11		Company's 2012 Rate Case.			
12		In that case, the PUC approved the Amended Settlement Agreement thereby upholding			
13		the provisions of the Storm Fund, including threshold and deductible requirements,			
14		guidelines for the annual escalation of the threshold, interest calculation on fund			
15		balances, and reporting requirements, and authorized the Company to reinstate the Storm			
16		Fund accrual in base distribution rate cost of service at the rate of \$1.8 million annually,			
17		effective February 1, 2013. The PUC also directed the Company to credit the Storm			
18		Fund in the amount of \$2.5 million beginning on January 1, 2014. <sup>4</sup> Lastly, the PUC			
19		further authorized the Company to contribute an additional \$3.0 million of base			

<sup>&</sup>lt;sup>4</sup> Annual amortization of \$2.5 million related to the 2003 Voluntary Early Retirement Offer (VERO) approved by the PUC in Docket No. 3617 concluded on December 31, 2013. Upon its conclusion, beginning on January 1,

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1	distribution rates annually to the Storm Fund for a period of six years commencing
2	February 1, 2013 to address the impacts of Hurricane Sandy, resulting in a total annual
3	base distribution rate customer contribution of \$7.3 million.
4	At that time, the PUC's decision to allow the Company to build the Storm Fund through
5	annual customer contributions, and to maintain a balance in the fund that was expected to
6	greatly facilitate the recovery of restoration costs related to Hurricane Sandy and other
7	subsequent significant storm events, while mitigating bill impacts for customers.
8	
9	The reinstatement of customer contributions approved in the 2012 Rate Case was
10	intended to provide the Storm Fund with a level of contributions sufficient to address
11	costs related to the storm events experienced through calendar year 2011, as well as the
12	impacts of Hurricane Sandy, the devastating storm that occurred in late October 2012.
13	However, as a result of the significant damage caused by Winter Storm Nemo, the
14	February 8, 2013 Nor'easter that crippled the Company's service territory, and 13 other
15	qualifying storm events that followed, including the January 2015 Winter Storm Juno and
16	the August 2015 Lightning Storm, the level of Storm Fund contributions was insufficient.
17	
18	On December 29, 2016, the Company filed a petition with the PUC to implement a Storm
19	Fund Replenishment Factor designed to collect approximately \$84.3 million over a four-
20	year period, or approximately \$21.1 million annually, to be credited to the Company's

2014, this amount is credited to the Storm Fund. <u>See</u> Report and Order 21011 (April 11, 2013), Docket No. 4323 at 105.

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1	Storm Fund to replenish the Storm Fund's balance. This petition became Docket No.
2	4686.
3	The Company also requested that the PUC authorize the extension of the annual \$3.0
4	million of supplemental base rate contributions to the Storm Fund, which the PUC
5	authorized in the 2012 Rate Case to address the impacts of Hurricane Sandy, for an
6	additional 26-month period beyond its current expiration in January 2019. The
7	Company's request was designed to (1) mitigate the deferral of costs, carrying charges,
8	and resulting future bill impacts for customers; and (2) provide adequate cash flow for the
9	Company to support continued funding of emergency preparedness, response, and service
10	restoration activities related to significant storm events that occur in the future.
11	The PUC subsequently approved in Docket No. 4686 the implementation of the Storm
12	Fund Replenishment Factor for effect July 1, 2017 and the extension of the annual \$3.0
13	million of supplemental base rate contributions to the Storm Fund for an additional 26-
14	month period through March 31, 2021. During Docket No. 4686, the Division asserted
15	that base labor and labor overhead costs charged to the Storm Fund by employees of
16	other National Grid affiliates in the performance of major storm restoration services are
17	not incremental costs and should be excluded from the Storm Fund. On September 25,
18	2017, the Company and the Division submitted a Joint Proposal and Settlement
19	Agreement with the PUC establishing, among other things, a new method for determining
20	incremental Service Company costs to be charged to the Storm Fund, and an agreement
21	to share with customers certain proceeds received when Narragansett Electric and

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1		Narragansett Gas personnel perform storm restoration services on behalf of an affiliated			
2		or unaffiliated utility. Also as part of the settlement in response to the Division's			
3		concerns, the Company agreed to reduce the Storm Fund by \$2 million. The Joint			
4		Proposal and Settlement is pending PUC approval.			
5					
6	Q.	Please summarize the current annual funding level of the Company's Storm Fund.			
7	A.	Currently, the annual funding level of the Company's Storm Fund is \$28.4 million, which			
8		includes (1) \$4.3 million in annual base distribution rate contributions; (2) \$3.0 million of			
9		supplemental Hurricane Sandy base distribution rate contributions through their currently			
10		scheduled expiration in March 2021; and (3) \$21.1 million credit to the Storm Fund			
11		through the Storm Fund Replenishment Factor through its currently scheduled expiration			
12		in June 2021. In addition, the threshold, which automatically escalates annually by the			
13		CPI-U, is currently \$837,000, and the per-storm deductible is \$375,000. In addition, 50			
14		percent of annual pole attachment revenues above \$850,000 are credited to the Storm			
15		Fund.			
16					
17	Q.	What is the estimated Storm Fund deficit, currently?			
18	A.	The Storm Fund deficit is estimated at approximately \$90.2 million as of September 30,			
19		2017.			
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21					

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Q. Please describe the settlement agreement that the Company entered into with the

2 Division in Docket No. 4686.

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Certainly. The Joint Proposal and Settlement Agreement between the Company and the Division resolved the issue of storm-related base pay and overheads charged to the Company by affiliates during major storm restoration activities, and resulted in some modifications to the overall structure of the Storm Fund. First, the Company agreed to reduce the Storm Fund balance by \$2 million. Second, for major storm events occurring subsequent to the PUC's approval of the Joint Proposal and Settlement Agreement, the Company will credit its customers for 75 percent of the Net Revenue (as hereinafter defined) received by Narragansett Electric or Narragansett Gas, as appropriate, for performing storm response services in other jurisdictions. The term "Net Revenue" is defined as the proceeds received or cost reductions achieved for base labor and nonincremental labor overhead costs on all labor (i.e. not just base labor) charged for storm restoration services provided to other utilities, whether affiliated or non-affiliated, less an amount equal to the labor capitalization rate set in the Company's most recent base-rate case. The Company will credit the Net Revenue received for Narragansett Electric storm response services performed in other jurisdictions, including those outside of National Grid's service territories, to the Storm Fund. The Company will credit the Net Revenue received for Narragansett Gas storm response services performed in other jurisdictions, including those outside of National Grid's service territories, back to customers through the Distribution Adjustment Charge (DAC), as applicable.

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Next, the Company will make an adjustment to charges to the Storm Fund to remove base
labor and overheads of Service Company employees to the extent those charges are
already being recovered through Narragansett Electric's base distribution rates. For
major storms that occur prior to the effective date of the base rate change in this
proceeding (i.e. September 1, 2018), the Company will determine the percentage of base
labor of New England-based Service Company employees who charge Narragansett
Electric over a representative twelve-month period (for normal activities). For major
storms that occur after September 1, 2018, this percentage will be based on the
percentage of base labor of New England-based Service Company employees who charge
Narragansett Electric during the Test Year in the most recently completed general rate
case. This would be the percentage of New England Service Company costs that are
effectively recovered in base distribution rates. For major storms, that percentage of
Service Company base labor and overheads would be excluded from the Storm Fund.
For the Test Year in this proceeding, that rate is 6.82 percent.
Effective September 1, 2018, the Company and the Division have proposed that the
Storm Fund threshold amount will be increased to \$1,100,000. Consistent with the
existing Storm Fund, the threshold amount will continue to escalate effective each
January 1; however, the escalation index used to calculate the annual threshold amount
shall be the same index used to calculate inflation in this proceeding, which is the average
GDP-CTI and CPI-U as described in Section D of my testimony. The first escalation of
this threshold amount will occur on January 1, 2020. Additionally, the Storm Fund will

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1		no lo	inger be subject to a deductible effective September 1, 2018, and no provision for			
2		dedu	ctibles will be included in base distribution rates.			
3						
4	Q.	Are	there aspects of storm cost recovery that were not changed as part of the Joint			
5		Prop	oosal and Settlement Agreement with the Division?			
6	A.	The J	The Joint Proposal and Settlement Agreement specifically referenced certain aspects of			
7		the S	the Storm Fund or other storm-related matters that would remain unchanged. These			
8		inclu	include:			
9		(1)	The interest rate on the Storm Fund balance is set at the customer deposit rate and			
10			shall be adjusted on March 1 annually (approved by the PUC in Docket No.			
11			2509);			
12		(2)	50 percent of all revenue received from attachment and other telecommunication			
13			company fees for use of the Company's distribution plant in excess of \$850,000			
14			annually would continue to be credited to the Storm Fund each year (approved by			
15			the PUC in Docket No. 3617); and			
16		(3)	As established in the 2012 Rate Case, an allowance for non-deferrable storm			
17			expense shall be established in each base distribution rate case. Costs in excess of			
18			\$2,000,000 above the non-deferrable storm expense allowance in any calendar			
19			year shall be charged to the Storm Fund. The amount in excess of \$2,000,000			
20			below the non-deferrable storm expense allowance in any calendar year shall be			
21			credited to the Storm Fund.			

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Q. What was the allowance in rates that was established in the 2012 Rate Case for	r non-
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#### deferrable storm expense?

The amount of non-deferrable storm expense allowed for recovery through base distribution rates was set at \$3,722,000 in the 2012 Rate Case. This amount is the five-year average of non-deferrable storm costs for calendar years 2007 to the 2011 Test Year in the Company's last general rate case. As agreed to in the PUC approved Amended Settlement Agreement in that case, a \$2,000,000 dead band was established, which would trigger additional charges to the Storm Fund for non-deferrable storm costs in excess of \$5,722,000 in a calendar year, or a credit to the Storm Fund if non-deferrable storm costs were less than \$1,722,000.

A.

#### Q. Please explain the reason for the \$2,000,000 dead band.

A. The Company's electric system is always vulnerable to the unpredictability of the weather. The recent increase in the frequency of Storm Fund deferrable major storm events since the Company's last general rate case is well documented. The frequency and impact on the Company's electric system could not have been predicted at that time, and the Storm Fund has protected the Company from suffering significant financial harm from those events. However, frequency of smaller storms with costs below the deferrable Storm Fund threshold is similarly unpredictable. A significant increase in the number of smaller storms could also impact the financial integrity of the Company and consequently the \$2,000,000 dead band protects the Company if that situation were to occur. However, similarly, the dead band protects customers from paying for the costs of storms that do

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1		not occur should the Company incur non-deferrable storm costs of less than \$1,722,000
2		in a year.
3		
4	Q.	Has a new allowance for non-deferrable storm expense been established and how
5		was it calculated?
6	A.	Yes, the new five-year average of non-deferrable storm expense for the period covering
7		the twelve months ended June 30, 2013 to the twelve months ended June 30, 2017 is
8		\$3,193,756 as shown on Schedule MAL-31 at Page 7, Line 13, Column (e).
9		
10	Q.	Does this new allowance impact the non-deferrable storm expense test described
11		above?
12	A.	If the actual level of non-deferrable storm expense in any calendar year commencing in
13		2019 is greater than \$5,193,756, then the amount in excess of \$5,193,756 shall be
14		charged to the Storm Fund. If the actual level of non-deferrable storm expense in any
15		calendar year commencing in 2019 is less than \$1,193,756, the amount by which
16		\$1,193,756 exceeds the actual non-deferrable storm expense in that calendar year shall be
17		credited to the Storm Fund. If new base distribution rates go into effect on September 1,
18		2018, the dead band for 2018 shall be applied to the average of \$3,722,000 for 8/12ths of
19		the year and \$3,193,756 for 4/12ths of the year, or \$3,545,919.
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<b>X.</b> (	Other	Miscell	laneous	Pro	posals
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- 2 Q. Are there any other proposals you wish to discuss in your testimony?
- 3 A. Yes. The Company (1) proposes to move the reporting period for Narragansett Gas'
- 4 annual earnings report showing its return on equity to a calendar year (January 1 through
- 5 December 31); (2) proposes to net pension and PBOP funding when calculating carrying
- 6 charges; and (3) requests that the PUC authorize exogenous cost treatment for
- 7 incremental costs that the Company incurs that are associated with Exogenous Events (as
- 8 defined below), each as discussed in more detail below.

#### A. Gas Earnings Sharing Mechanism

- 11 Q. Please provide the background for the Earnings Sharing Mechanism (ESM).
- 12 A. In Docket No. 3401, Order No. 17381, the PUC approved a base-distribution rate
- settlement among the Division, The Energy Council of Rhode Island, and the Company
- that required the former New England Gas Company to file an earnings sharing
- 15 calculation based on a twelve-month period ended June 30, by September 1 of each year
- as part of an incentive-based ESM. Obligations of this settlement agreement were
- assumed by the Company in connection with its acquisition of the regulated gas assets in
- 18 Rhode Island from the Southern Union Company (Southern Union). As part of the
- 19 Company's 2012 Rate Case and the resulting settlement agreement, approved by the PUC
- in January 2013, the Company continued to file an earnings report to be measured over
- 21 the Company's fiscal year (i.e., the twelve-month period ending March); filed by July 1

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1	following the end of each fiscal year; and calculated based on the Company's gas annual
2	report that is filed with the PUC for the twelve-months ending March 31.

3

# Q. Is the Company requesting any changes to the timing for the filing of its gas ESM report?

6 A. Yes, as further described below. In its September 1, 2015 Supplemental DAC filing in 7 Docket No. 4573, the Company included a request for a permanent standing extension of 8 the filing date for the Company's gas ESM reports from July 1 to August 28 of each year. 9 The permanent standing extension permits the Company to file its gas ESM report each 10 year at the same time it files its Federal Energy Regulatory Commission (FERC) Form 1 11 Supplemental Statement with CPA Certification as well as the first quarter FERC Form 12 3-Q (i.e., 150 days after the fiscal year end of March 31) each year. The PUC approved 13 the Company's request at its October 30, 2015 Open Meeting. Because the August 28 14 due date for the gas ESM report is only four calendar days prior to the annual 15 Supplemental DAC filing on September 1, which contains the earnings sharing 16 calculation and proposed ESM factor, the Company included a request in its September 1, 2016 Supplemental DAC filing in Docket No. 4634 to change the filing date from 17 August 28 to September 1 each year to coincide with the Supplemental DAC filing.<sup>5</sup> The 18 19 PUC approved the Company's request immediately following the October 21, 2017 20 evidentiary hearing.

<sup>&</sup>lt;sup>5</sup> This request had no impact on the filing of the gas annual report, which continued to be filed with the PUC in conjunction with the filing of the FERC Form 1 Supplemental Statement with CPA Certification and first quarter Form 3-Q with FERC.

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1		At this time, the Company respectfully requests to change the timing of the filing of its				
2		gas ESM report from September 1 to May 1 each year to align with the timing of the				
3		filing of the Company's ESM report for Narragansett Electric on May 1 each year. The				
4		Company is not proposing any changes to the current ESM calculation other than to base				
5		the calculation on the Company's gas annual report for the twelve-months ending				
6		December 31. The Company's Annual Report to the PUC for Narragansett Gas will				
7		reflect the twelve-month period ending December 31. The Company would file its gas				
8		ESM report for Fiscal Year 2018 on or before September 1, 2018. If PUC approves the				
9		Company's request to change the timing of filing the gas ESM report to May 1 based on				
10		a twelve-month period ending December 31, the Company would file its first gas ESM				
11		report for the twelve-month period ending December 31, 2018 by May 1, 2019.				
12						
13		B. Pension and PBOP Funding				
14	Q.	What is the Company's proposal with respect to the funding of its pension and				
15		PBOP expenses?				
16	A.	The Company requests that, for the purpose of determining its "Minimum Funding				
17		Obligation" and the carrying costs that apply to that obligation, it be permitted to				
18		combine the funding of pensions and PBOPs, thereby offsetting, for example, any				
19		deficiencies in PBOPs funding with any excess pension funding. Under this proposal, the				
20		Company would be required to accrue and defer carrying charges on only the net				
21		unfunded pension/PBOP amount.				

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#### Q. Please describe the Minimum Funding Obligation.

It is important to maintain well-funded pension and PBOP plans, not only to satisfy the A. obligation to pay benefits to the retired employees who earned those benefits, but also to invest the amounts that customers have paid to the Company to meet those obligations. Monies invested in the pension and PBOP plans grow and ultimately help to reduce overall pension and PBOP costs. The Minimum Funding Obligation is the Company's obligation to contribute amounts recovered from customers to the pension and PBOP plans as it is being recovered. The Minimum Funding Obligation level is equal to the amount billed to customers plus the amounts of capitalized pension and PBOP costs. The amount billed to customers includes (1) the pension and PBOP allowance in base distribution rates, and (2) plus or minus the amount billed or credited to customers through the PAF. If the Company does not fund its pension and PBOP plans at the Minimum Funding Obligation level, the Company will pay a carrying charge to customers at the weighted average cost of capital. This payment would be applied to the cumulative five quarter average shortfall between the Minimum Funding Obligation level and amounts the Company contributes to the pension and PBOP plans, plus amounts paid to the Service Company for allocated pension and PBOP costs.

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#### Q. Why is the Company making this request?

A. The Company is making this request to allow for flexibility in its funding of the pension and PBOP plans. There may be instances in which it may be advantageous to fund more than the amount of the Minimum Funding Obligation to either the pension plans or the

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PBOP plans. If such an instance were to occur, the Company would like the flexibility to contribute some or all of the Minimum Funding Obligation for PBOP costs to the pension plan instead, or vice versa. For example, the Company's pension plans are insured by the Pension Benefit Guaranty Corporation (PBGC), which is a US Government agency that insures pension plans that are qualified under the US tax code. The PBGC was created by the Employee Retirement Income Security Act of 1974 (ERISA) to protect pension benefits in private-sector defined benefit plans. The PBGC assesses both a fixed rate premium and a variable rate premium on defined benefit plans. The fixed rate premium is a set fee per plan participant. In addition, a variable rate fee is assessed if a plan is underfunded as per the PBGC's calculation of funded status. The Company's pension plans are currently not underfunded, however if it ever were, additional funding above the Minimum Funding Obligation could be required to avoid or minimize the PBGC's variable rate fees. As a component of pension expense, PBGC fees are ultimately costs borne by customers. The PBGC does not insure PBOP plans and there is no similar insurance or federal government funding requirements for PBOP plans. It may be in the best interests of customers for the Company to contribute amounts it recovered from customers for PBOPs to the pension plan to avoid or minimize fees. Another reason for granting funding flexibility to the Company is to avoid the possibility of permanently over funding the pension or PBOP plans. Contributions to such plans are

irrevocable and therefore if a plan were to hold more assets than it will ever pay out in

benefits to the participants, the over funded amounts cannot be retrieved. So if for

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1		example, a PBOP plan was overfunded or nearly overfunded, it may be prudent to
2		suspend contributions to the PBOP plan, and instead contribute the entire Minimum
3		Funding Obligation for that year, including the PBOP portion, to the pension plans.
4		Permission by the PUC to combine the funding of pension and PBOPs would give the
5		Company the flexibility to avoid permanently overfunding the PBOP plan, while at the
6		same time, give the Company the ability to meet its Minimum Funding Obligation.
7		
8	Q.	Have other jurisdictions granted this type of flexibility to affiliates of the Company?
9	A.	Yes. The Company's New York affiliates have a similar funding reserve as the
10		Company's Minimum Funding Obligation, and the New York Public Service
11		Commission approved the same treatment the Company is requesting. Specifically, the
12		New York Public Service Commission authorized the Company's affiliates, Niagara
13		Mohawk Power Corporation, The Brooklyn Union Gas Company d/b/a National Grid
14		NY, and KeySpan Gas East Corporation d/b/a National Grid to net pension and PBOP
15		funding when calculating carrying charges <sup>6</sup> .
16	С.	Exogenous Cost Treatment
17	Q.	What is the Company's proposal for addressing significant cost changes that may
18		arise following the setting of rates in this proceeding arising from regulatory,

<sup>&</sup>lt;sup>6</sup> For Niagara Mohawk Power Corporation, see the New York Public Service Commission's Order Adopting Rate Plan Provisions (issued and effective July 17, 2012) in Case 10-E-0050. For The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid, see Sections IV. 6.1.1 and V.6.1.1 of the Joint Proposal adopted by the New York Public Service Commission in the Order Adopting Terms of Joint Proposal and Establishing Gas Rate Plans (issued and effective December 16, 2016) in Cases 16-G-0058 and 16-G-0059.

### THE NARRAGANSETT ELECTRIC COMPANY

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1		legislative, or judicial decisions that are beyond the Company's control (Exogenous
2		Costs)?
3	A.	Through this proceeding, the Company is requesting a change in base distribution rates to
4		take effect September 1, 2018, and to remain in effect for several years thereafter. At this
5		time, National Grid is aware that several significant legislative initiatives are pending that
6		could have a uniquely substantial impact on the Company's cost of service and that
7		would require rate treatment given the significance of the cost change that would result.
8		Given the potential for these major regulatory, legislative, or judicial decisions to create
9		cost implications for the Company and its customers in the Rate Year and/or the Data
10		Years, the Company is requesting that the PUC authorize a factor for exogenous cost
11		treatment until the next general rate case.
12		
13		Specifically, the Company is requesting that the PUC authorize exogenous cost treatment
14		for incremental costs associated with any of the following events:
15		
16		(a) Changes in the federal, state, or local rates, laws, or regulations governing
17		income, revenue sales, or franchise taxes; or
18		(c) Legislative, court, or regulatory change that imposes new or modifies
19		existing obligations or duties; or
20		(c) Changes in accounting standards promulgated by the Financial
21		Accounting Standards Board, or other appropriate authority.
22		

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1		A cost change	arising as a result of actions taken in relation to one of these three
2		categories wou	ald be recorded by the Company as an exogenous cost deferral, pending
3		review and app	proval by the PUC. In that proceeding, the Company would be eligible for
4		exogenous cos	t recovery in relation to any single cost item falling into one of the
5		categories abo	ve with an annual revenue requirement impact of \$750,000 for
6		Narragansett E	Electric, or \$500,000 for Narragansett Gas (Exogenous Cost Threshold).
7			
8	Q.	Is the Compa	ny aware of any potential Exogenous Events with respect to which the
9		Company mag	y incur Exogenous Costs during the Rate Year and/or the Data Years?
10	A.	Yes. There are	e two pending legislative initiatives that could have significant impacts
11		during the effe	ctiveness of these rates. These changes would affect costs in the Rate Year
12		and/or the Data	a Years:
13			
14		(a)	There is a pending Pipeline and Hazardous Materials Safety
15			Administration (PHMSA) rulemaking regarding pipeline integrity
16			management, integrity verification and related issues in PHMSA Docket
17			ID 2011-0023;
18		(b)	The United States Congress is considering recently proposed tax reform
19			legislation that may include changes in bonus depreciation; and
20		(c)	The United States Congress is considering changes to the Patient
21			Protection and Affordable Care Act. Company Witness Maureen P.

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1		Heaphy discusses potential changes to the Patient Protection and
2		Affordable Care Act in more detail in her testimony.
3		
4		In the event that new regulations and/or legislation identified in items (a), (b), and/or (c)
5		above be enacted that affect the Company's costs, the Company is requesting the PUC
6		authorize deferral treatment of all changes in costs arising from such enactments without
7		regard to whether such changes exceed the Exogenous Cost Threshold. In the event that
8		Exogenous Costs are incurred, the Company will submit a filing with the PUC describing
9		such Exogenous Costs and include in such filing the rationale for the deferral and its
10		calculation.
11		
12	Q.	Please describe Company's proposal with respect to Exogenous Cost deferrals.
12 13	<b>Q.</b> A.	Please describe Company's proposal with respect to Exogenous Cost deferrals.  For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that
13		For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that
13 14		For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that reduce costs and generate an amount to be credited back to customers shall be credited to
13 14 15		For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that reduce costs and generate an amount to be credited back to customers shall be credited to the Storm Fund. For any Exogenous Cost deferrals that increase costs and generate an
13 14 15 16		For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that reduce costs and generate an amount to be credited back to customers shall be credited to the Storm Fund. For any Exogenous Cost deferrals that increase costs and generate an amount due to Narragansett Electric, the Company shall propose a method for cost
13 14 15 16 17		For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that reduce costs and generate an amount to be credited back to customers shall be credited to the Storm Fund. For any Exogenous Cost deferrals that increase costs and generate an amount due to Narragansett Electric, the Company shall propose a method for cost recovery in a filing with the PUC within 90 days following the calendar year in which the
13 14 15 16 17		For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that reduce costs and generate an amount to be credited back to customers shall be credited to the Storm Fund. For any Exogenous Cost deferrals that increase costs and generate an amount due to Narragansett Electric, the Company shall propose a method for cost recovery in a filing with the PUC within 90 days following the calendar year in which the deferral has been triggered. Exogenous Cost credits shall be netted against Exogenous
13 14 15 16 17 18		For Narragansett Electric, the Company proposes that any Exogenous Cost deferrals that reduce costs and generate an amount to be credited back to customers shall be credited to the Storm Fund. For any Exogenous Cost deferrals that increase costs and generate an amount due to Narragansett Electric, the Company shall propose a method for cost recovery in a filing with the PUC within 90 days following the calendar year in which the deferral has been triggered. Exogenous Cost credits shall be netted against Exogenous

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1		The Company proposes that the cash cost/benefit of Exogenous Cost events shall accrue
2		interest at the customer deposit rate from such time until recovered from/returned to
3		customers. The Company proposes to file a certification with the PUC by March 31 each
4		year that would include the identification and quantification of any exogenous costs
5		occurring in the prior calendar year or a certification stating that, to the best of the
6		Company's knowledge and belief, there have been no occurrences of Exogenous Events.
7		
8	XI.	Conclusion
9	Q.	Does this conclude your testimony?
10	A.	Yes, it does.